

SCHOOL
EMPLOYEES
RETIREMENT
SYSTEM OF
OHIO

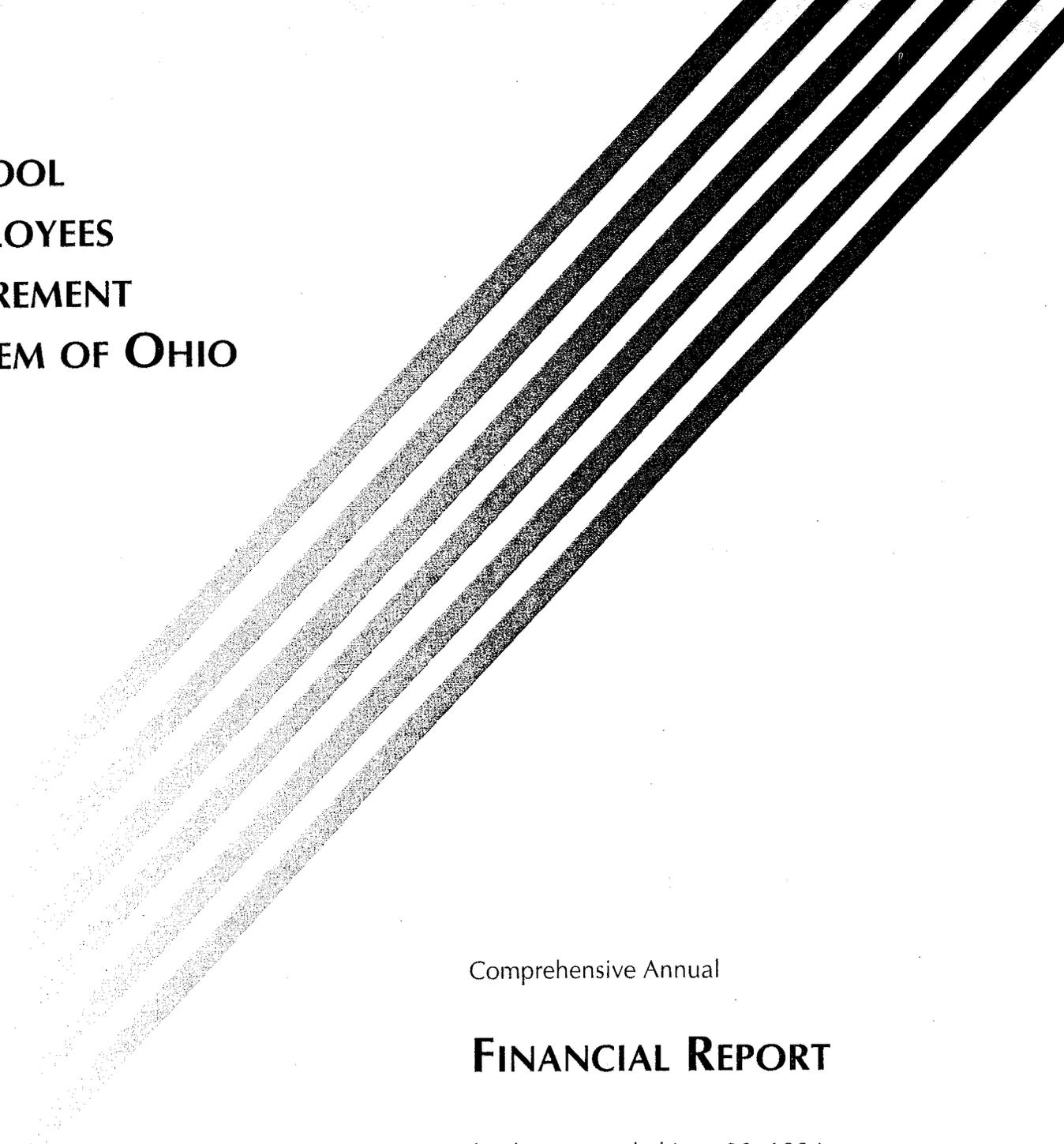
COMPREHENSIVE
ANNUAL

FINANCIAL REPORT

FOR THE YEAR ENDED
JUNE 30, 1994

SEERS

**SCHOOL
EMPLOYEES
RETIREMENT
SYSTEM OF OHIO**



Comprehensive Annual

FINANCIAL REPORT

for the year ended June 30, 1994

Prepared by SERS Staff

Thomas R. Anderson
Executive Director

Joel E. Sofranko
Director of Finance

THE SCHOOL EMPLOYEES RETIREMENT BOARD OF OHIO



Seated: Judy Kelley and Jeannie Knox. **Standing, Left To Right:** Daniel Wilson, Barbara Overholser, RuthAnna Spears, Anne Jewell (Attorney General's Representative), William Lenkey (State Auditor's Representative).

President: Judy Kelley, Akron, Ohio
Term Expires June 30, 1997

Vice President: Jeannie Knox, Cincinnati, Ohio
Term Expires June 30, 1995

Employee-Member: Barbara Overholser, Columbus, Ohio
Term Expires June 30, 1997

Employee-Member: Daniel L. Wilson, Shaker Heights, Ohio
Term Expires June 30, 1996

Retiree-Member: RuthAnna Spears, Kettering, Ohio
Term Expires June 30, 1996

ExOfficio Member: Lee Fisher
Attorney General

ExOfficio Member: Thomas E. Ferguson
Auditor of State

Thomas R. Anderson
Executive Director

Directors

Robert E. Hartsook
*Deputy Director /
Member Services*

F. Robert Coe
*Management
Information Services*

Paul M. Kubinsky
Investments

Joel E. Sofranko
Finance

ORGANIZATIONAL CHART

RETIREMENT BOARD

Judy Kelley, *President*
Jeannie Knox, *Vice President*
Barbara Overholser, *Employee-Member*
Daniel L. Wilson, *Employee-Member*
RuthAnna Spears, *Retiree-Member*
Lee Fisher, *Attorney General*
Thomas E. Ferguson, *Auditor of State*

EXECUTIVE DIRECTOR

Thomas R. Anderson

**DEPUTY DIRECTOR/
DIRECTOR
MEMBER SERVICES**
Robert E. Hartsook

**DIRECTOR
MANAGEMENT
INFORMATION
SERVICES**
F. Robert Coe

**DIRECTOR
INVESTMENTS**
Paul M. Kubinsky

**DIRECTOR
FINANCE**
Joel E. Sofranko

CONSULTANTS/ADVISORS

Dr. Robert J. Atwell - Medical Advisor
Coopers & Lybrand, L.L.P. - Independent Accountants
Gabriel, Roeder, Smith & Co. - Actuaries
Ronald A. Karp Associates - Investment Performance

The L & B Group - Real Estate Investments
Mellon Capital Management - Equity Investments
Frank Russell Company - Investment Consultants

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Certificate of Achievement for Excellence in Financial Reporting

Presented to

School Employees
Retirement System
of Ohio

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 1993

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



President

Executive Director



SCHOOL EMPLOYEES RETIREMENT SYSTEM

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

December 20, 1994

PRESIDENT AND MEMBERS OF THE RETIREMENT BOARD:

Dear President and Members:

We are pleased to submit to you the comprehensive annual financial report of the School Employees Retirement System of Ohio (SERS) for the fiscal year ended June 30, 1994.

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

SERS is a cost-sharing multiple-employer public employee retirement system established by the Ohio General Assembly in 1937 to provide retirement benefits to employees of the Ohio public schools who are not required to possess a certificate in order to perform their

duties. Benefits provided to participants in SERS include age and service retirement, disability benefits, survivor benefits, death benefits and post-retirement health care benefits. For a more complete description of employees eligible for membership in SERS, as well as benefits provided upon retirement, disability or death, please see the Plan Summary Section on page 62.

Economic Environment

During the fiscal year ended June 30, 1994, major economic indicators signaled that the recession was over; and that on the whole, the U.S. economy was growing, although slowly. However, consumer confidence has not risen along with the economy as companies, large and small, continue to restructure and downsize, wage levels remain stagnant and overtime replaces new hiring. Too often, the new jobs created by small business are characterized by low wages and few benefits.

These conflicting signals have had a pronounced effect on the financial markets during this period. Our forecast last year for a cautious approach to the stock market was fulfilled. Although the Dow Jones Industrial Average neared 4000 in late January, it dropped sharply two months later. As the 1994 fiscal year ended, the DJIA showed only a marginal increase from the June 30, 1993 close.

January also marked the end of level, low interest rates. And as interest rates rose, bonds suffered. Although net newer funds can be invested in instruments carrying higher rates, those new higher interest rates reduce the market value of SERS' fixed income portfolio.

Unfortunately, it appears that fiscal year 1995 will be just as volatile as 1994. Attaining investment earnings objectives in an unfavorable economic environment is difficult, but SERS will maintain its emphasis on diversified high quality assets that will protect pension and health care benefits well into the future.

Major Initiatives

The study of automated data processing systems that began in 1993 pinpointed the need for SERS to replace the processes and systems that have evolved over the last fifteen to twenty years. Starting with a clean slate and involving the time and effort of nearly one-quarter of SERS' staff, we have documented the requirements of a new automated benefit system from the ground up. Design, development and implementation will occur over the next three to five years, but the result will be a system that will be flexible enough to respond, when necessary, to changes brought on by legislation, technology and demographics. Throughout this study our number one objective has been to improve our service and responsiveness to SERS members and retirees.

Next, the roll-out of the managed health care program for retirees and dependents under the age of 65 began in October 1993. Nearly 90% of the eligible benefit recipients in Ohio will be covered by October 1994. Also starting July 1, 1994, a new short term prescription plan became effective. Participants will no longer have to meet a deductible or wait for reimbursement, they simply pay 20% of the drug's cost at the time they pick up their prescription at their local pharmacy. Through means such as these, we will continue our efforts to hold down health care costs while maintaining high quality benefits.

Finally, SERS retained the Frank Russell Company of Tacoma, Washington to assist with a review of our asset allocation as a result of our expanded investment authority. With legislation that became effective in October 1993, SERS may increase its level of equity investments to 50% of the total value of the portfolio and purchase debt and equity investments of foreign entities. We expect that this will enhance the earnings and growth potential of our portfolio for the long term.

Awards

The Government Finance Officers Association of the

United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to SERS for its comprehensive annual financial report for the fiscal year ended June 30, 1993. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

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

A Certificate of Achievement is valid for a period of one year only. SERS has received a Certificate of Achievement for the last nine consecutive years (fiscal years ended 1985-1993). We believe our current report continues to conform to the Certificate of Achievement Program requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

SERS received the Public Pension Principles Achievement Award from the Public Pension Coordinating Council for 1993, one of only thirteen pension funds nationwide to receive this recognition. The purpose of the Achievement Award is to promote high professional standards for public employee retirement systems. It is based on compliance with twenty specific principles that underline retirement system achievements in the areas of benefits, actuarial valuations, financial reporting, investing and disclosure to members. The award remains in effect for one year.

Accounting System and Reports

These financial statements were prepared in accordance with generally accepted accounting principles of governmental accounting and reporting as pronounced by the American Institute of Certified Public Accountants and the Governmental Accounting Standards Board. The financial statements are the responsibility of SERS' management.

Our internal accounting controls are designed to ensure the security of member and employer contributions, to assure responsible safeguarding of our assets and to provide a degree of reliability to all our financial records.

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

Financial Highlights

As you review SERS' financial statements, the single item that stands out is the decrease in health care expenses. Certainly the recent changes made by SERS to hold down the controllable portion have been successful. These areas include providing incentives for the use of generic drugs, reducing the subsidized portion of dependent premiums and requiring new retirees with less than 25 years of service to pay a portion of their own premiums. Also, some

benefits were realized from the phase-in of managed care for retirees under 65 which began in October 1993. However, SERS was the beneficiary of federal initiatives to provide universal health care coverage for all Americans. One effect of the health care reform effort was a curb on the double-digit increases by health care providers. This moderating of the rise in health care costs was experienced nationally, but it is likely to be of short duration.

This slowdown in the health care cost spiral is welcome relief but it also serves as a reminder that SERS must continue to be diligent in managing the controllable portion of its health care expenses.

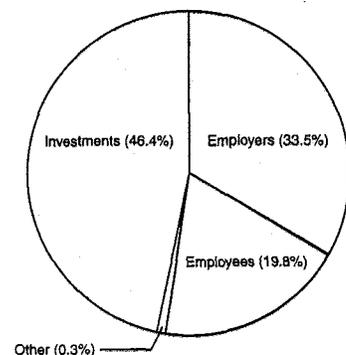
Revenues

The financing of retirement and health care benefits is derived from employee and employer contributions and through investment earnings. Revenues from employee and employer contributions were \$128.2 million and \$216.4 million, respectively, while income from investments totaled \$300.4 million. The employee and employer contribution rates during fiscal 1994 remained unchanged from the prior year at 9% and 14%, respectively. Overall, revenues increased 11.6% over those of the prior year, primarily due to increased investment earnings.

OPERATING REVENUE (EXPRESSED IN MILLIONS)

	1994	1993	INCREASE AMOUNT	INCREASE PERCENTAGE
Member Contributions	\$128.2	\$123.3	\$ 4.9	4.0%
Employer Contributions	216.4	210.4	6.0	2.9
Investment Earnings	300.4	243.5	56.9	23.4
Other	2.0	2.4	(.4)	16.7
Total	\$647.0	\$579.6	\$67.4	11.6%

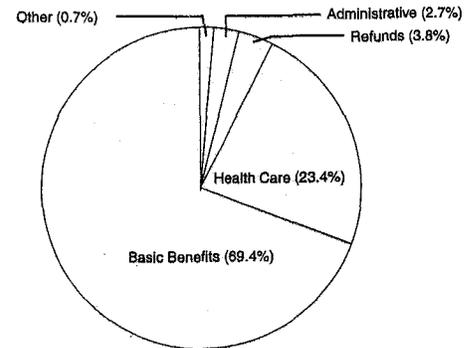
1994 REVENUE



**OPERATING EXPENSES
(EXPRESSED IN MILLIONS)**

	1994	1993	INCREASE AMOUNT	INCREASE PERCENTAGE
Retirement Payments	\$253.7	\$237.4	\$16.3	6.9%
Health Care Payments	85.5	87.1	(1.6)	(1.8)
Refunds	13.9	13.5	.4	3.0
Administrative Expenses	10.0	9.7	.3	3.1
Other	2.7	2.7	-	-
Total	\$365.8	\$350.4	\$15.4	4.4%

1994 EXPENSES



Expenses

Expenses are incurred primarily for the purpose for which SERS was created, namely, the payment of benefits. Included in the total expenses for fiscal 1994 were benefit payments, refunds of contributions due to member terminations or deaths, transfers of contributions to other Ohio Systems to provide benefits for those members who had membership in more than one system, and administrative expenses. The increase in total System expenses resulted from the growth in the number of benefit recipients and their correspondingly higher basic benefits.

Funding and Reserves

Funds are derived from the excess of revenues over expenses, and are accumulated by SERS in order to meet current and future benefit obligations to retirees and beneficiaries. The higher the level of funding, the larger the accumulation of assets and the greater the investment income potential. Net income for the fiscal year 1994 resulted in an increase in the fund balance of \$281.3 million.

The actuarial valuation for funding purposes, dated June 30, 1994, reflects an unfunded accrued liability for basic benefits of \$1,429 million and for health care benefits of

\$1,693 million. These liabilities represent the difference between the computed actuarial accrued liability to be paid members and retirees and total valuation assets for basic benefits (\$5,381 million and \$3,952 million) and health care (\$1,834 million and \$141 million). The unfunded accrued liabilities are being amortized in an orderly fashion over future years. The pension benefit obligation, a standardized disclosure measure of the actuarial present value of credited projected benefits, for basic benefits and health care benefits was \$5,217 million and \$1,541 million, respectively, as of June 30, 1994. The employer contribution rate of 14% is allocated by Board policy between basic benefits and health care. To provide additional funding for post-retirement health care benefits, employers pay a surcharge for members whose salary is less than a minimum amount. The contributions from the basic 14% employer rate plus the surcharge accomplish the goal of putting basic benefits and health care on a level cost funding basis as long as future health care inflation does not exceed future general price inflation.

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

Investments

SERS invests the accumulated funds in order to maximize both current income yield and long-term appreciation. For the fiscal year ended June 30, 1994, investments provided 46.4% of the System's total revenues while employee and employer contributions provided 19.8% and 33.5%, respectively; other sources accounted for the remaining .3%.

The market value of the investments of the System was \$3.915 billion at June 30, 1994, an increase of \$23 million from the previous year. For the last ten years, SERS has experienced an average annualized return of 11.2%. At June 30, 1994, the carrying value of our investment portfolio was structured as follows: 49.1% in debt securities; 34.2% in equity securities; 7.8% in short-term investments; and 8.9% in real estate.

The primary objective of our investment policy is to assure that the System meets its responsibilities for providing retirement and other benefits. The portfolio is diversified to provide adequate cash flow and the highest possible total return on System assets with the least possible exposure to risk. Statutory provisions also serve to limit risk (and return) within respective investment portfolios. Details of portfolio composition, rates of return, analysis of significant economic conditions, and additional information concerning our investment policy and operations are provided on pages 44 through 61 of this report.

Future Prospects

As certified by our actuary in this report, SERS is being maintained on a financially sound basis, thus providing protected future benefits for participants. We anticipate that investment earnings on System assets will continue to meet or exceed actuarially assumed earnings rates. The System's goal is to maintain contribution rates, expressed as a percentage of payroll, on a level basis and provide for the amortization of unfunded accrued liabilities over a reasonable period.

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

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

Acknowledgements

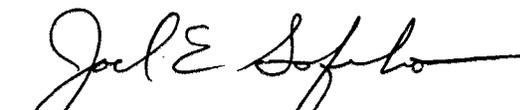
The preparation of this report is the result of the combined effort of the System's staff under the direction of the Retirement Board. It is intended to provide complete and reliable information as a basis for making management decisions, to disclose compliance with legal provisions, and to serve as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

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

Respectfully submitted,



Thomas R. Anderson
Executive Director



Joel E. Sofranko, CPA
Director of Finance

LEGISLATIVE SUMMARY

STATE LEGISLATION

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

S.B. 43 effective 10/7/93

This legislation was enacted to expand and clarify SERS' investment authority. SERS' investment authority was expanded to authorize investments in any stock, American Depositary Receipt or derivative of such if the underlying instrument is listed on the S&P 500 Index, the 400 Mid-Cap Index or the New York or American Stock Exchange. The statutory limit on stock investments was increased from 35 percent to 50 percent of the value of the Fund. The legislation further authorizes SERS to invest in debt or equity interests or instruments issued by foreign entities, not to exceed, in the aggregate, 10 percent of the value of the Fund.

H.B. 197 effective 10/11/94

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

H.B. 492 effective 5/12/94

This legislation made major changes in the ethics requirements and disclosure/reporting laws governing public officers and employees. All SERS board members and employees are subject to state ethics laws. SERS board members and the Executive Director also are subject to the ethics disclosure/reporting laws. Included in the new law is a requirement that those persons required to file disclosure statements report the source of all gifts with a value of over \$75.00 received from other than family members and, with certain exceptions, the payment or reimbursement of travel, food and lodging expenses.

FEDERAL LEGISLATION

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

over the past year include the following:

Windfall/Offset

Legislation to amend or repeal the Social Security Offset provision was again introduced. H.R. 1674, introduced by Congresswoman Furse, and H.R. 1897, introduced by Congressman Jefferson, would totally repeal the Offset. Although both bills were introduced in early 1993, no action has been taken by Congress.

Section 415

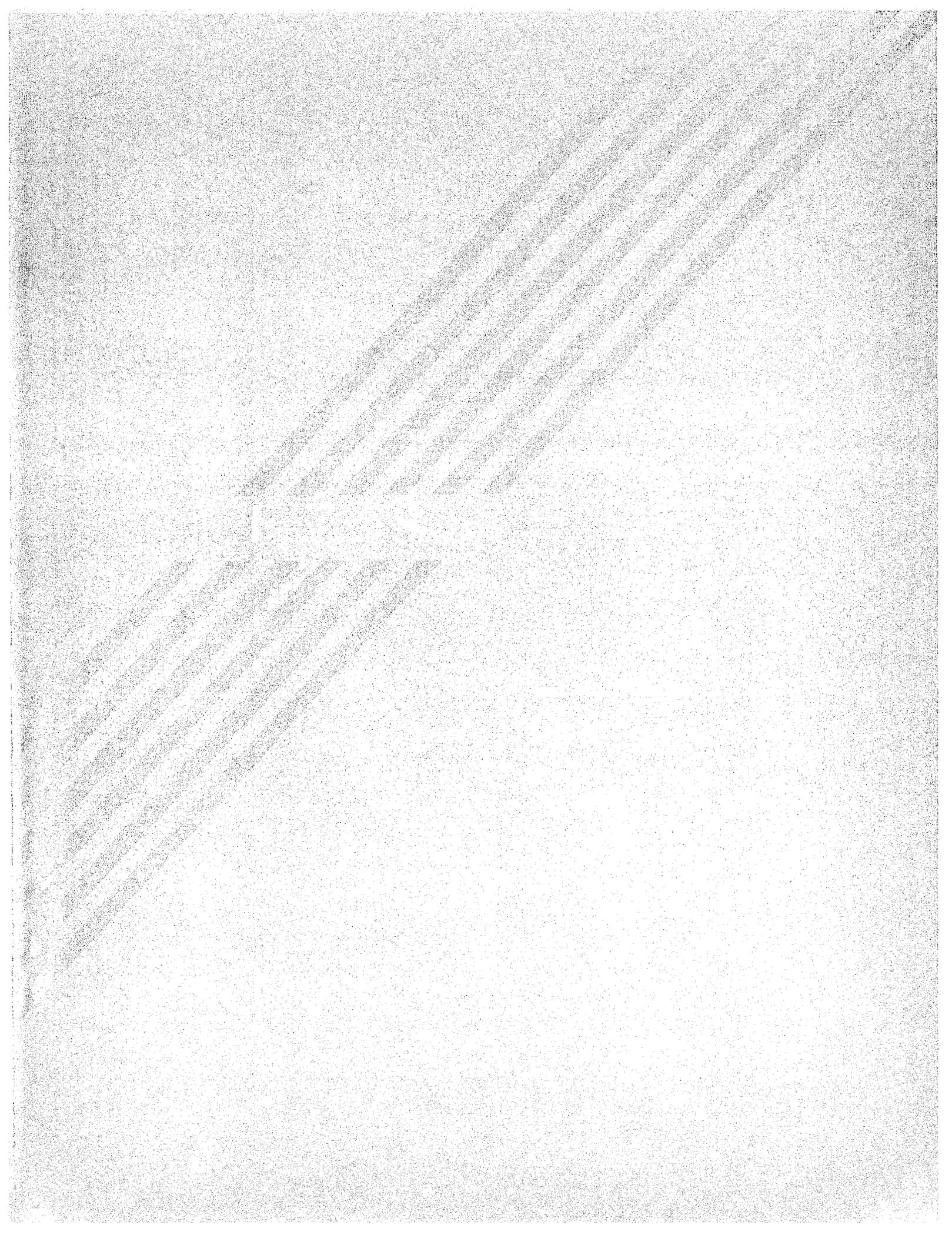
Legislation to amend Section 415 of the Internal Revenue Code to lessen its impact on public retirement systems, such as SERS, was again introduced in Congress. Section 415 provides that no retirement benefit can be paid which is in excess of either a set dollar amount that is adjusted annually for inflation or 100% of compensation. The current definition of "compensation" does not include deferred income such as that under Section 414(h) pick-up plans or Section 457 deferred compensation plans. The legislation introduced included a uniform definition of "compensation", exempted governmental plan benefits from the 100% limitation, authorized governmental plans to establish excess plans and provided that governmental plan disability retirement and survivor benefits are not subject to Section 415. Although the proposed legislation received wide support, it was not enacted due to other Congressional priorities. Similar legislation will likely be introduced again next session.

Health Care Reform

A wide array of legislation was introduced to reform the health care delivery system. SERS closely monitored the various proposals and contacted members of Congress to ensure that the potential impact on SERS and its members, beneficiaries and covered employers was understood. No federal health care reform legislation was enacted this session.

Social Security

Legislation (H.R. 4245) was introduced to make changes in Social Security requirements and benefits, including a reduction in the cost-of-living increase and acceleration of the increase in the Social Security retirement age. Additionally, the proposal would have required all state and local government employees hired after December 31, 1994 to be covered by Social Security. No action was taken on the bill this session.



FINANCIAL SECTION

REPORT OF INDEPENDENT ACCOUNTANTS

Coopers
& Lybrand

Coopers & Lybrand L.L.P.

a professional services firm

Report of Independent Accountants

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

We have audited the accompanying balance sheets of School Employees Retirement System of Ohio as of June 30, 1994 and 1993, and the related statements of revenues, expenses and changes in fund balance and cash flows for the years then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such financial statements present fairly, in all material respects, the financial position of School Employees Retirement System of Ohio as of June 30, 1994 and 1993, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The financial section schedules listed in the table of contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements. Such schedules as of and for the year ended June 30, 1994 and 1993 have been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The schedules as of and for the year ended June 30, 1985 through 1992 were reported upon by other auditors, whose reports stated that the schedules were fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Columbus, Ohio
December 9, 1994

Coopers & Lybrand L.L.P.

BALANCE SHEETS
JUNE 30, 1994 AND 1993

	1994	1993
Assets:		
Cash (note 5)	\$ 1,261,655	\$ 1,811,826
Receivables:		
Contributions:		
Employers (note 4)	119,107,002	117,607,488
Employees (note 4)	9,708,016	9,671,246
State of Ohio subsidies	634,297	713,509
Accrued investment income	28,367,586	27,940,769
Investment sale proceeds	14,431,122	42,058,466
Total receivables	<u>172,248,023</u>	<u>197,991,478</u>
Investments, at cost (market \$3,914,623,193 and \$3,891,427,930, respectively) (note 5)	<u>3,422,811,566</u>	<u>3,120,457,058</u>
Property and equipment, at cost (note 6)	12,335,090	11,444,522
Less accumulated depreciation	<u>6,754,353</u>	<u>6,072,330</u>
Net property and equipment	<u>5,580,737</u>	<u>5,372,192</u>
Other assets (note 7)	<u>1,613,213</u>	<u>6,299,415</u>
Total assets	<u>3,603,515,194</u>	<u>3,331,931,969</u>
Liabilities:		
Accounts payable and accrued expenses (note 9)	1,091,276	956,029
Investment commitments payable	6,257,223	14,148,099
Health care benefits incurred and unpaid	18,735,917	20,853,837
Other liabilities (note 7)	<u>1,490,803</u>	<u>1,332,697</u>
Total liabilities	<u>27,575,219</u>	<u>37,290,662</u>
Net assets available for benefits	<u>\$3,575,939,975</u>	<u>\$3,294,641,307</u>
Fund balance (note 3):		
Pension benefit obligation:		
Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	\$3,440,013,345	\$3,267,007,395
Current employees:		
Accumulated employee contributions, including allocated investment income	961,669,425	889,126,855
Employer financed portion	<u>2,356,358,448</u>	<u>2,262,011,887</u>
Total pension benefit obligation	<u>6,758,041,218</u>	<u>6,418,146,137</u>
Unfunded pension benefit obligation payable	<u>(3,182,101,243)</u>	<u>(3,123,504,830)</u>
Total fund balance	<u>\$3,575,939,975</u>	<u>\$3,294,641,307</u>

See accompanying notes to financial statements.

FINANCIAL SECTION

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCE YEARS ENDED JUNE 30, 1994 AND 1993

	1994	1993
Revenues:		
Contributions:		
Employers (note 4)	\$216,383,274	\$210,429,351
Employees (note 4)	128,246,355	123,270,559
State of Ohio subsidies	635,159	714,365
Transfers from other Ohio systems	1,409,907	1,649,509
	<u>346,674,695</u>	<u>336,063,784</u>
Investment income:		
Interest and dividends	188,047,919	184,664,571
Real estate income, net	18,859,215	13,683,573
Net gain on sale of investments	93,501,571	45,191,019
	<u>300,408,705</u>	<u>243,539,163</u>
Total revenues	<u>647,083,400</u>	<u>579,602,947</u>
Expenses:		
Benefits:		
Retirement	212,437,443	198,878,409
Disability	27,367,790	24,987,872
Survivor	13,067,061	12,666,260
Health care	85,496,108	87,079,286
Death	805,186	774,729
	<u>339,173,588</u>	<u>324,386,556</u>
Refund of employee contributions	13,908,639	13,513,992
Administrative expenses	10,037,313	9,726,019
Transfers to other Ohio systems	2,665,192	2,747,590
Total expenses	<u>365,784,732</u>	<u>350,374,157</u>
Net income	281,298,668	229,228,790
Fund balance, beginning of year	3,294,641,307	3,065,412,517
Fund balance, end of year	<u>\$3,575,939,975</u>	<u>\$3,294,641,307</u>

See accompanying notes to financial statements.

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 1994 AND 1993

	1994	1993
Cash flows from operating activities:		
Contributions received	\$ 345,217,623	\$ 331,719,312
Benefits paid	(341,291,508)	(322,553,465)
Refunds of employee contributions	(13,908,639)	(13,513,992)
Administrative expenses paid	(4,278,118)	(7,153,938)
Transfers to other Ohio systems	(2,665,191)	(2,747,590)
Net cash used in operating activities	<u>(16,925,833)</u>	<u>(14,249,673)</u>
Cash flows from investing activities:		
Proceeds from investments sold	3,465,406,559	3,190,946,425
Purchase of investments	(3,657,413,638)	(3,383,176,220)
Investment income, net of investment expenses	209,370,926	203,042,248
Net cash provided by investing activities	<u>17,363,847</u>	<u>10,812,453</u>
Cash flows from capital and related financing activities:		
Additions to property and equipment	(988,185)	(540,852)
Net cash used for capital and financing activities	<u>(988,185)</u>	<u>(540,852)</u>
Net decrease in cash	(550,171)	(3,978,072)
Cash at beginning of year	1,811,826	5,789,898
Cash at end of year	<u>\$ 1,261,655</u>	<u>\$ 1,811,826</u>
Reconciliation of operating income to net cash used in operating activities:		
Net income	\$ 281,298,668	\$ 229,228,790
Adjustments to reconcile operating income to net cash provided by operating activities:		
Investment income, net of investment expenses	(300,408,705)	(243,539,163)
Increase in contributions receivable	(1,457,071)	(4,344,472)
Depreciation (non-investment)	779,640	1,091,513
Decrease in other assets	4,686,202	1,111,084
Increase in accounts payable and accrued expenses	135,247	157,033
Increase (decrease) in health care benefits incurred and unpaid	(2,117,920)	1,833,091
Increase in other liabilities	158,106	212,451
Total adjustments	<u>(298,224,501)</u>	<u>(243,478,463)</u>
Net cash used in operating activities	<u>\$(16,925,833)</u>	<u>\$ (14,249,673)</u>

See accompanying notes to financial statements.

FINANCIAL SECTION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 1994 AND 1993

(1) Description of the System

(A) Organization - The School Employees Retirement System of Ohio (SERS) is a cost-sharing multiple-employer public employee retirement system established by the Ohio General Assembly in 1937 to provide retirement benefits to employees of Ohio public schools who are not required to possess a certificate in order to perform their duties.

The accompanying financial statements comply with the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity." This statement requires that financial statements of the reporting entity include all of the organizations, activities, functions and component units for which the reporting entity is financially accountable. Financial accountability is defined as the appointment of a voting majority of the component unit's board and either (1) the reporting entity's ability to impose its will over the component unit, or (2) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the reporting entity. SERS does not have financial accountability over any entities. Responsibility for the organization and administration of SERS is vested in the Retirement Board. SERS is not considered part of the State of Ohio financial reporting entity. There is no financial interdependency with the State of Ohio, nor does the State of Ohio provide oversight authority for the System. The Retirement Board is the governing body of SERS. It is comprised of four elected employee-members, one elected retiree-member and two statutory members.

Employer and employee membership data as of June 30 follows:

Employer Members	1994	1993
Local	372	371
City	192	192
County	83	84
Village	49	49
Vocational	49	49
Technical	13	13
College	2	2
Other	5	4
Total	<u>765</u>	<u>764</u>

Employee Members	1994	1993
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	<u>57,734</u>	<u>56,478</u>
Current Employees		
Vested	62,178	60,809
Nonvested	<u>37,740</u>	<u>38,326</u>
Total	<u>99,918</u>	<u>99,135</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(B) Benefits - Members are eligible for retirement benefits based upon age and service credit as follows: age 60 and earning 5 years of service credit; between ages 55 and 60 and earning 25 years of service credit; or earning 30 years of service credit at any age. The benefit is equal to 2.1% of the member's final average salary, or a minimum of \$86, multiplied by the number of years of credited service. Members are eligible for disability benefits after completion of 5 years of service. Qualified dependents of a deceased member are eligible for monthly survivor benefits. Death benefits of \$500 are payable upon the death of a retiree to a designated beneficiary.

Members with credited service in the State Teachers Retirement System (STRS) or Public Employees Retirement System (PERS) are eligible to receive transferred credited service and funds from either or both of those systems. Any service which is not concurrent with service within SERS will be included in the determination of retirement benefits. Similarly, a member with credited service and funds in SERS may transfer such service to STRS or PERS upon retirement.

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

Prior to July 1, 1986, all members receiving a benefit from SERS were eligible to receive health care benefits. Members who retire effective July 1, 1986 or later must have at least 10 or more years of service credit to qualify

for the health care benefits. Effective August 1, 1989, 1) members retiring with more than 10 but less than 25 years of service credit were required to pay from 25% to 75% of the health insurance premium phased in over a period of five years and 2) the SERS portion of spouse and dependent health insurance premiums was reduced from 50% to 30%, over a five-year period.

(2) Summary of Significant Accounting Policies

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

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

Investments in real estate funds are carried at cost or adjusted cost. Investments in venture capital are accounted for using the equity method.

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

Investments in common and preferred stocks are carried at cost. Gains and losses on stock sales are recognized on the basis of the average cost of the stocks sold.

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

FINANCIAL SECTION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

Description	Estimated Lives (years)
Furniture and equipment	3-10
Building and improvements	40

(C) Federal Income Tax Status - SERS is a qualified entity under Section 501(a) of the Internal Revenue Code and is therefore exempt from federal income taxes.

(D) Health Care Benefits Incurred and Unpaid - Amounts accrued for health care benefits payable are based upon estimates furnished by the claims administrator. Such estimates have been developed from prior claims experience.

(E) Reclassification - Certain 1993 balances have been reclassified to conform with 1994 presentation.

(3) Funding Status and Progress

The amount shown as the "pension benefit obligation" is

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

The pension benefit obligation was determined as part of an actuarial valuation of the plan as of June 30, 1994 and 1993. There were no changes in actuarial assumptions or in actuarial funding methods used in the actuarial valuation of June 30, 1994 as compared to the assumptions used as of June 30, 1993. The following significant assumptions were used in the actuarial valuations as of June 30, 1994 and 1993:

Actuarial Assumption

Rate of return on investments	7.75% compounded annually (net of administrative expenses).
Projected salary increases	4.75% compounded annually, attributable to inflation; additional increases ranging from 0% to 3% per year attributable to seniority and merit.
Post-retirement mortality	1971 Group Annuity Table projected to 1984 set back 1 year for women and men.
Rates of withdrawal from active service	Developed on basis of actual plan experience.
Health care premiums	4.75% annual increase with 25% of eligible female retirants and 60% of eligible male retirants electing joint survivor form of payment and 25% of eligible female retirants and 50% of eligible male retirants electing to cover spouse for health care.
Medicare	All recipients are eligible for Medicare on attainment of age 65 or immediately if retired for disability.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

At June 30, 1994, the unfunded pension benefit obligation was \$ 3,182,101,243 as follows:

	Basic Retirement Benefits	Health Care Benefits	Total
Pension benefit obligation:			
Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	\$2,538,488,662	\$ 901,524,683	\$3,440,013,345
Current employees:			
Accumulated employee contributions including allocated investment income	961,669,425		961,669,425
Employer financed - vested	1,551,751,354	617,588,422	2,169,339,776
Employer financed - non-vested	165,119,412	21,899,260	187,018,672
Total pension benefit obligation	<u>5,217,028,853</u>	<u>1,541,012,365</u>	<u>6,758,041,218</u>
Net assets available for benefits, at cost (market \$4,090,085,283)	<u>3,452,782,261</u>	<u>123,157,714</u>	<u>3,575,939,975</u>
Unfunded pension benefit obligation	<u>\$1,764,246,592</u>	<u>\$1,417,854,651</u>	<u>\$3,182,101,243</u>

At June 30, 1993, the unfunded pension benefit obligation was \$3,123,504,830 as follows:

	Basic Retirement Benefits	Health Care Benefits	Total
Pension benefit obligation:			
Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	\$2,369,169,783	\$ 897,837,612	\$3,267,007,395
Current employees:			
Accumulated employee contributions including allocated investment income	889,126,855		889,126,855
Employer financed - vested	1,475,534,958	596,717,893	2,072,252,851
Employer financed - non-vested	167,230,394	22,528,642	189,759,036
Total pension benefit obligation	<u>4,901,061,990</u>	<u>1,517,084,147</u>	<u>6,418,146,137</u>
Net assets available for benefits, at cost (market \$3,810,192,007)	<u>3,172,262,652</u>	<u>122,378,655</u>	<u>3,294,641,307</u>
Unfunded pension benefit obligation	<u>\$1,728,799,338</u>	<u>\$1,394,705,492</u>	<u>\$3,123,504,830</u>

FINANCIAL SECTION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(4) Contributions

The Ohio Revised Code requires contributions by active members and their employers. Contribution rates are established by the Retirement Board within the allowable rates established by the Ohio Revised Code. The adequacy of employer contribution rates is determined annually by actuarial valuation using the entry age normal cost method. Active members and their employers are required to contribute 9% and 14%, respectively, of active member payroll.

The current employer contribution rate is allocated to basic retirement benefits and health care by the Retirement Board. For fiscal year 1994, the allocation of the employer contribution rate to basic retirement benefits has been established as the rate necessary to cover normal cost, plus an amortization of the unfunded actuarial accrued liabilities over a 40-year period. The employer contribution rate (14%) is allocated 9.13% to basic benefits and the remaining 4.87% is allocated to health care benefits. The contribution rate allocated to health care, plus the additional rate of contribution provided by the health care surcharge, is sufficient to cover normal cost and provide level cost financing of the unfunded actuarial accrued liabilities.

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

Employer and employee contributions required and made represented 14% and 9%, respectively, of active member payroll and amounted to \$194,603,000 and \$125,102,000, respectively, in 1994. The employer contribution consisted of \$91,101,352 for normal cost and \$103,501,648 for amortization of the unfunded actuarial accrued liability. The employee contributions are applied to normal cost.

The health care surcharge on employers is collected for employees earning less than an actuarially determined minimum pay, pro-rated according to service credit earned (for fiscal years 1994 and 1993, the minimum has been established as \$10,400 and \$9,900, respectively). The amount of the surcharge accrued for fiscal years 1994 and 1993 and included in contribution revenue from employers in the Statements of Revenues, Expenses and Changes in Fund Balance is \$21.5 million and \$19 million, respectively.

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

(5) Cash Deposits, Investments and Securities Lending

(A) Cash Deposits

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

As of June 30, 1994, the carrying amount of the SERS' deposits was \$1,261,655 and the bank balance was \$4,674,025. The carrying amount of deposits is separately displayed on the balance sheet as "Cash". Balances held in each category are as follows:

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Insured (FDIC)	\$100,000	\$100,000
Uncollateralized	1,161,655	4,574,025
Total Deposits	<u>\$1,261,655</u>	<u>\$4,674,025</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(B) Investments

SERS is authorized to invest in bonds, notes, certificates of indebtedness, mortgage notes, real estate, stocks, shares, debentures, or other obligations or securities as set forth in the Ohio Revised Code.

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

In accordance with Statement No. 3 of the Governmental Accounting Standards Board, SERS' investments are categorized to give an indication of the level of risk assumed by SERS at year-end. Category 1 includes investments that are insured or registered, with securities held by the

Treasurer or custodial agent bank in SERS' name.

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

In accordance with a contractual relationship between the Treasurer and a custodial agent bank, all securities subject to categorization are Category 1 investments held in book entry form in a unique account so as to be identified at all times as the possession of SERS. Direct mortgage loans, securities on loan contracts, real estate funds, and venture capital funds are investments which by their nature are not categorized for level of risk purposes.

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

	Category 1	Category 2	Category 3	Total	Market Value
U.S. government obligations and U.S. government agency obligations	\$ 126,650,823			\$ 126,650,823	\$ 125,971,148
FHLMC & GNMA mortgage-backed securities	560,747,502			560,747,502	562,000,914
Corporate bonds and notes	449,439,679			449,439,679	417,265,909
Canadian bonds	87,585,701			87,585,701	81,221,398
Common and preferred stock	1,000,298,961			1,000,298,961	1,549,576,289
Commercial paper	269,913,071			269,913,071	269,913,071
Total	<u>\$2,494,635,737</u>	<u>\$0</u>	<u>\$0</u>	<u>2,494,635,737</u>	<u>3,005,948,729</u>
Securities on loan contracts				576,431,993	591,462,975
Real estate funds				303,650,978	269,119,464
Direct mortgage loans				25,736,997	25,736,164
Venture capital investments				22,355,861	22,355,861
Total				<u>\$3,422,811,566</u>	<u>\$3,914,623,193</u>

FINANCIAL SECTION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(C) Securities Lending

The System participates in a security lending program, administered by the custodial agent bank, whereby certain securities are transferred to an independent broker/dealer (borrower) in exchange for collateral equal to no less than 102% of the market value of the loaned securities. The System has minimized its exposure to credit risk due to borrower default by having the custodial agent bank determine daily that required collateral meets 100% of the market value of securities on loan.

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

The System has not experienced any losses due to credit or market risk on security lending activity since implementation of the program. The market value of securities loaned to brokers/dealers at June 30, 1994 totaled \$591.5 million. Security lending income totaled \$977,080 and \$383,345, for the years ended June 30, 1994 and 1993, respectively.

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

A summary of property and equipment at June 30 follows:

	1994	1993
Land	\$1,178,055	\$1,178,055
Building and improvements	4,148,281	4,081,532
Furniture and equipment	7,008,754	6,184,935
	<u>12,335,090</u>	<u>11,444,522</u>
Less accumulated depreciation	6,754,353	6,072,330
	<u>\$5,580,737</u>	<u>\$5,372,192</u>

(7) Deferred Compensation

Employees of SERS may elect to participate in the Ohio Public Employees Deferred Compensation Program (Program), created in accordance with Internal Revenue Code Section 457. Under the Program, employees may

elect to defer a portion of their pay until a later date, usually after retirement. The deferred pay and any income earned thereon is not subject to income taxes until actually received by the employee.

As of June 30, 1994, market value of investments in the Program totaled \$1,490,803 and have been included in other assets. Under the terms of the Program agreement, these monies are subject to the claims of SERS' general creditors. Accordingly, this amount is reflected as an asset along with a corresponding liability to the employees participating in the Program. Participating employees are general creditors of SERS with no preferential claim to the deferred funds. Investments in the Program are held by the Program's agent in SERS' name.

(8) Defined Benefit Pension Plan

All SERS employees participate in the Public Employees Retirement System of Ohio (PERS), a cost-sharing multiple-employer public employee retirement system. The payroll for employees covered by PERS for the year ended June 30, 1994 was \$4,079,698; SERS' total payroll was \$4,177,483.

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

SERS and employee contributions for the year ended June 30, 1994 were \$552,799 and \$346,774, respectively; these contributions represented 13.55% and 8.5% of covered employee payroll, respectively, as required by state statute. Rates are established by the PERS retirement board upon recommendation by the actuary. There

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

were no changes in actuarial assumptions, benefit provisions, actuarial funding methods or other significant factors. During PERS' fiscal year 1993, the contribution rates established by the retirement board were the same as those computed by the actuary in their latest actuarial valuation.

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

PERS does not make separate measurements of assets and pension benefit obligation for individual employers. The pension benefit obligation as of December 31, 1992, the date of the most recent actuarial valuation, for PERS as a whole was \$21.6 billion. PERS' net assets available for benefits (excluding amounts allocated to health care costs) on that date were \$20.8 billion, leaving an unfunded pension benefit obligation of \$.8 billion. PERS does not hold any securities in the form of notes, bonds or other instruments of any of the entities contributing to PERS. SERS' contribution represented less than 1 percent of total contributions required of all participating entities.

PERS' Comprehensive Annual Financial Report for the year ended December 31, 1993 contains historical trend information for seven years only.

In addition to pension benefits, PERS provides post-employment health care benefits, in accordance with state statutes, to all employees who retire with 10 or more years of qualifying Ohio service credit and to disability recipients. At December 31, 1993 the plan had approximately 348,000 participants.

A portion of each employer's contribution to PERS is set

aside for the advanced funding of post-employment health care. Of the 13.55% of employee payroll contributed by SERS to PERS, 5.11%, or approximately \$208,000, was the portion used to fund health care. Statutory rates equal the actuarially determined contribution requirements.

The actuarial present value of accrued post-employment benefits was determined based on the entry age normal method of funding. Significant actuarial assumptions used in the December 31, 1992 valuation (most recent available) were (a) investment rate of return of 7.75%, (b) investments valued at cost or amortized cost, adjusted to reflect 25% of unrealized market appreciation or depreciation on investment assets, (c) no change in the number of active employees, (d) base pay rate increases of 5.25% and annual pay increases over and above the 5.25% base increase ranging from 0% to 5.1%, and (e) health care increases of 5.25% annually.

The total PERS' actuarial present value of accrued post-employment benefits as of December 31, 1992 was \$7.0 billion; the net assets available for these benefits at that date were \$5.6 billion.

(9) Compensated Absences

As of June 30, 1994 and 1993, \$295,116 and \$278,221, respectively, was accrued for unused vacation and sick leave for SERS' employees. Employees who retire or resign are entitled to full compensation for all earned unused vacation. Unused sick leave pay is forfeited upon termination. However, employees who retire, become disabled or deceased after five years of service are entitled to receive payment for a percentage of unused sick leave.

(10) Contingent Liabilities

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

(11) Historical Trend Information

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

FINANCIAL SECTION

ANALYSIS OF FUNDING PROGRESS

GASB Statement No. 5 requires the presentation of ten years of comparative actuarial statistical data, disclosing the progress made in accumulating assets to pay benefits when due.

SCHEDULE I

BASIC RETIREMENT BENEFITS (\$ Amounts in Millions)

Fiscal Year	(1) Net Assets Available for Benefits	(2) Pension Benefit Obligation	(3) Percentage Funded (1) divided by (2)	(4) Unfunded Pension Benefit Obligation (2) minus (1)	(5) Covered Payroll	(6) Unfunded Pension Benefit Obligation as a Percent of Covered Payroll (4) divided by (5)
1985	\$1,556	\$2,257	68.9%	\$701	\$804	87.2%
1986	1,747	2,511	69.9	764	869	87.9
1987	1,930	2,646	72.9	716	931	76.9
1988*	2,107	3,017	69.9	910	982	92.6
1989	2,311	3,346	69.1	1,035	1,055	98.1
1990	2,513	3,662	68.6	1,149	1,119	102.7
1991**	2,722	4,214	64.6	1,492	1,176	126.8
1992	2,930	4,546	64.5	1,616	1,244	129.9
1993	3,172	4,901	64.7	1,729	1,313	131.7
1994	3,453	5,217	66.2	1,764	1,361	129.6

Health Care Benefits (\$ Amounts in Millions)

1985	\$120	\$656	18.3%	\$536	\$804	66.7%
1986	129	830	15.5	701	869	80.7
1987	133	1,006	13.2	873	931	93.8
1988*	133	991	13.4	858	982	87.4
1989	144	1,065	13.5	921	1,055	87.3
1990	149	1,135	13.1	986	1,119	88.1
1991**	141	1,241	11.4	1,100	1,176	93.5
1992	136	1,436	9.5	1,300	1,244	104.5
1993	122	1,517	8.0	1,395	1,313	106.2
1994	123	1,541	8.0	1,418	1,361	104.2

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

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

Analysis of the dollar amounts of net assets available for benefits, pension benefit obligation (both basic retirement and health care benefits), and unfunded pension benefit obligation in isolation can be misleading. Expressing the net assets available for benefits as a percentage of the pension benefit obligation provides one indication of SERS' funding status on a going-concern basis. Analysis of this percentage over time indicates whether SERS is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger SERS is. Trends in unfunded pension benefit obligation and annual covered

payroll are both affected by inflation. Expressing the unfunded pension benefit obligation as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of SERS' progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger SERS is.

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

See accompanying independent auditors' report.

SCHEDULE II

REVENUES BY SOURCE

Fiscal Year	Member Contributions	Employer Contributions	Investment Income	Other Revenues	Total	Employer Contribution
						Rate as a Percent of Covered Payroll
1985	\$73,117,682	\$119,145,737	\$153,934,029	\$3,004,376	\$349,201,824	14.0%
1986	78,979,863	130,507,996	171,115,676	3,333,819	383,937,354	14.0
1987	84,848,170	135,032,693	175,493,200	2,521,825	397,895,888	14.0
1988	89,667,853	145,784,980	161,724,032	2,280,893	399,457,758	14.0
1989	96,422,050	171,094,710	193,830,887	2,448,403	463,796,050	14.0
1990	104,105,361	180,544,371	196,527,043	2,569,782	483,746,557	14.0
1991	109,310,197	188,465,132	201,820,479	1,981,749	501,577,557	14.0
1992	117,331,597	202,421,912	205,739,886	2,283,675	527,777,070	14.0
1993	123,270,559	210,429,351	243,539,163	2,363,874	579,602,947	14.0
1994	128,246,355	216,383,274	300,408,705	2,045,066	647,083,400	14.0

EXPENSES BY TYPE

Fiscal Year	Benefits	Administrative Expenses	Transfers to other Ohio Retirement Systems	Refunds	Total
1985	\$146,785,150	\$5,673,205	\$1,486,990	\$8,373,795	\$162,319,140
1986	166,606,773	5,863,596	1,901,100	9,058,221	183,429,690
1987	192,787,851	6,599,526	1,498,114	10,267,756	211,153,247
1988	204,178,239	6,689,009	2,131,150	9,791,762	222,790,160
1989	227,333,363	7,419,675	1,630,410	11,468,175	247,851,623
1990	255,285,627	7,942,036	1,983,908	12,532,925	277,744,496
1991	276,925,099	8,565,124	2,202,383	12,345,363	300,037,969
1992	302,422,078	8,586,487	1,741,637	12,751,491	325,501,693
1993	324,386,556	9,726,019	2,747,590	13,513,992	350,374,157
1994	339,173,588	10,037,313	2,665,192	13,908,639	365,784,732

See accompanying independent auditors' report.

FINANCIAL SECTION

ADMINISTRATIVE EXPENSES

SCHEDULE III

Years ended June 30, 1994 and 1993

	1994	1993
Personnel services:		
Salaries and wages	\$ 4,177,483	\$ 3,933,071
Retirement contributions	552,799	516,690
Insurance	517,361	501,832
Total personnel services	<u>5,247,643</u>	<u>4,951,593</u>
Professional services:		
Technical and actuarial	612,294	530,610
Medical	357,925	321,332
Auditing	79,892	61,394
Employee training	42,679	61,470
Total professional services	<u>1,092,790</u>	<u>974,806</u>
Communications:		
Postage	408,667	450,795
Printing and publications	166,951	160,559
Telephone	51,932	50,676
Retirement counseling services	11,987	7,632
Total communications	<u>639,537</u>	<u>669,662</u>
Other services and charges:		
Computer support services	1,209,703	1,028,990
Building occupancy and maintenance	415,682	301,580
Transportation and travel	175,005	195,292
Supplies	95,995	92,864
Equipment rental	100,041	92,463
Surety bonds and insurance	121,866	101,898
Memberships and subscriptions	41,178	51,712
Equipment repairs and maintenance	26,817	39,178
Retirement study commission	23,347	24,085
Miscellaneous	68,069	110,383
Total other services and charges	<u>2,277,703</u>	<u>2,038,445</u>
	<u>9,257,673</u>	<u>8,634,506</u>
Depreciation (non-investment):		
Furniture and equipment	676,906	986,755
Building	102,734	104,758
Total depreciation	<u>779,640</u>	<u>1,091,513</u>
Total administrative expenses	<u>\$10,037,313</u>	<u>\$ 9,726,019</u>

See accompanying independent auditors' report.

INVESTMENT SUMMARY

SCHEDULE IV

	YEAR ENDED JUNE 30, 1994				1994		% of Total Market Value
	1993		Purchases and Accretions	Sales, Redemptions and Accruals	Carrying Value	Market Value	
Corporate and government bonds and obligations	\$829,785,128	\$ 886,762,868			\$ 665,332,275	\$ (401,441,622)	\$1,093,675,781
First mortgage loans and mortgage-backed securities	592,467,884	641,376,962	211,861,234	(217,844,620)	586,484,498	587,737,078	15.0
Common and preferred stocks	1,085,158,014	1,783,134,287	224,493,189	(162,919,826)	1,146,731,377	1,742,160,649	44.5
Short-term investments	299,537,730	299,537,730	2,475,206,236	(2,504,830,895)	269,913,071	269,913,071	6.9
Real estate funds	284,013,244	251,121,025	61,074,952	(41,437,218)	303,650,978	269,119,464	6.9
Venture capital investments	29,495,058	29,495,058	13,388,174	(20,527,371)	22,355,861	22,355,861	0.6
Total investments	\$3,120,457,058	\$3,891,427,930	\$3,651,356,060	\$(3,349,001,552)	\$3,422,811,566	\$3,914,623,193	100.0%

	YEAR ENDED JUNE 30, 1993				1993		% of Total Market Value
	1992		Purchases and Accretions	Sales, Redemptions and Accruals	Carrying Value	Market Value	
Corporate and government bonds and obligations	\$692,570,598	\$736,032,966			\$524,290,850	\$(387,076,320)	\$829,785,128
First mortgage loans and mortgage-backed securities	703,421,270	767,800,836	114,111,147	(225,064,533)	592,467,884	641,376,962	16.5
Common and preferred stocks	1,006,146,918	1,570,206,304	199,346,950	(120,335,854)	1,085,158,014	1,783,134,287	45.8
Short-term investments	209,791,151	209,791,151	2,394,541,964	(2,304,795,385)	299,537,730	299,537,730	7.7
Real estate funds	271,917,153	263,558,486	130,792,267	(118,696,176)	284,013,244	251,121,025	6.5
Venture capital investments	29,588,718	29,588,718	8,602,683	(8,696,343)	29,495,058	29,495,058	0.8
Total investments	\$2,913,435,808	\$3,576,978,461	\$3,371,685,861	\$(3,164,664,611)	\$3,120,457,058	\$3,891,427,930	100.0%

See accompanying independent auditors' report.

FINANCIAL SECTION

FUND BALANCE ACCOUNTS

SCHEDULE V

Description of Accounts (Funds)

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

(A) Employees' Savings Fund

The Employees' Savings Fund accumulates the contributions deducted from the compensation of members. Contributions may be refunded to a member who withdraws from SERS or to the member's beneficiary following the member's death. Upon retirement, a member's accumulated contributions are transferred to the Annuity and Pension Reserve Fund.

(B) Employers' Trust Fund

The Employers' Trust Fund is the depository for employer contributions. Based on actuarial valuations, amounts are transferred out of this fund into the Annuity and Pension Reserve Fund and the Survivors' Benefit Fund.

(C) Annuity and Pension Reserve Fund

The Annuity and Pension Reserve Fund is the fund from

which all retirement, health care and death benefits are paid. Funds are transferred into the Annuity and Pension Reserve Fund from the Employees' Savings Fund and the Employers' Trust Fund.

(D) Survivors' Benefit Fund

The Survivors' Benefit Fund represents amounts transferred from the Employees' Savings Fund and the Employers' Trust Fund for the payment of survivors' benefits.

(E) Guarantee Fund

The Guarantee Fund records all investment earnings of SERS. Annually, investment earnings are transferred to the Annuity and Pension Reserve Fund, the Survivors' Benefit Fund, and the Expense Fund.

(F) Expense Fund

The Expense Fund is used to record all expenses for the administration and management of SERS. Annually, funds are transferred from the Guarantee Fund to cover expenses incurred.

A summary of the fund balance accounts follows:

YEAR ENDED JUNE 30, 1994

	Employees' Savings Fund	Employers' Trust Fund	Annuity and Pension Reserve Fund	Survivors' Benefit Fund	Guarantee Fund	Expense Fund	Total 1994	Total 1993
Fund balance at beginning of year	\$ 889,126,855	\$ (707,362,758)	\$2,946,037,237	\$ 166,839,973	-	-	\$3,294,641,307	\$3,065,412,517
Changes for the year:								
Contributions:								
Employers	-	216,383,274	-	-	-	-	216,383,274	210,429,351
Employees	128,246,355	-	-	-	-	-	128,246,355	123,270,559
State of Ohio subsidies	-	-	598,765	36,394	-	-	635,159	714,365
Investment income	-	-	-	-	300,408,705	-	300,408,705	243,539,163
Transfers from other								
Ohio systems	-	-	1,387,714	22,193	-	-	1,409,907	1,649,509
Benefits:								
Retirement	-	-	(212,437,443)	-	-	-	(212,437,443)	(198,878,409)
Disability	-	-	(27,367,790)	-	-	-	(27,367,790)	(24,987,872)
Survivor	-	-	-	(13,067,061)	-	-	(13,067,061)	(12,666,260)
Health care	-	-	(85,496,108)	-	-	-	(85,496,108)	(87,079,286)
Death	-	-	(805,186)	-	-	-	(805,186)	(774,729)
Refunds of employee contributions	(13,634,108)	-	(274,531)	-	-	-	(13,908,639)	(13,513,992)
Administrative expenses	-	-	-	-	-	(10,037,313)	(10,037,313)	(9,726,019)
Transfers to other								
Ohio systems	-	-	(2,650,645)	(14,547)	-	-	(2,665,192)	(2,747,590)
Other transfers	(42,069,677)	(173,438,958)	484,705,062	21,174,965	(300,408,705)	10,037,313	-	-
Net changes	72,542,570	42,944,316	157,659,838	8,151,944	-	-	281,298,668	229,228,790
Fund balance at end of year	\$ 961,669,425	\$ (664,418,442)	\$3,103,697,075	\$ 174,991,917	-	-	\$3,575,939,975	\$3,294,641,307

See accompanying independent auditors' report.

Actuarial Section ACTUARY'S LETTER

STATEMENT OF ACTUARY

ACTUARIAL SECTION

ACTUARY'S LETTER

GABRIEL, ROEDER, SMITH & COMPANY
Actuaries & Consultants

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

November 15, 1994

The Retirement Board
School Employees Retirement System of Ohio
Columbus, Ohio

The basic financial objective of SERS is to establish and receive contributions which, expressed as percents of active member payroll, will remain approximately level from generation to generation of Ohio citizens.

In order to determine SERS present financial position and level contribution rates for the future, annual actuarial valuations are made. The latest completed actuarial valuation is based upon data and assumptions as of June 30, 1994. The data was supplied by System staff. While not verifying the data at the source, tests were performed for consistency and reasonability. Conditions and results are shown in our reports.

Assumptions concerning future financial experiences are needed for an actuarial valuation. These assumptions are established by the Board after consulting with the actuary. A program of annual actuarial gain/loss analysis is in operation; these analyses determine the relationship between assumed financial experience and actual experience, for each major risk area. These actuarial gain/loss findings led to the adoption of substantial revised assumptions for the June 30, 1991 actuarial valuation. The assumed premiums for health care coverages are changed annually as premiums are changed by health care providers.

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

On the basis of the 1994 valuation and the basic benefits and allocated contribution rates then in effect, it is our opinion that the basic benefits portion of SERS is in sound condition in accordance with actuarial principles of level cost financing.

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

On the basis of the 1994 valuation and the health care benefits and allocated contribution rates then in effect, the allocated contributions are sufficient to provide level percent financing of the health care benefits if future health care cost inflation does not exceed future general price inflation.

Respectfully submitted,


Thomas J. Cavanaugh, F.S.A.

TJC/bv

STATEMENT OF ACTUARY

VALUATION AS OF JUNE 30, 1994

Actuarial Cost Method and Assumptions**Basic Retirement Benefits**

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

The present employer contribution rate of 14% is allocated between basic benefits and health care on the basis of SERS policy decision. For the year ended June 30, 1994, the policy required the determination of a rate for basic benefits which will amortize the unfunded actuarial accrued liabilities over a 40-year period, with the remainder of the employer contribution rate allocated to providing health care benefits. The rate determined for the funding of basic retirement benefits for the year ended June 30, 1994 is 9.13%.

Health Care Benefits

Initially, beginning in 1974, the contribution rate for health care benefits was established at 0.75%, included in a total employer contribution rate of 12.5%. Health care contribution rates have been increased at various times since 1974, and the total employer contribution rate has been increased to the statutory 14% maximum. The portion of the employer contribution rate allocated to health care for the year ended June 30, 1994 is 4.87%, which is insufficient by itself to provide level cost financing of the unfunded actuarial accrued health care liabilities. This is primarily due to the relatively low average salaries of the SERS contributing members.

In 1988, House Bill 290 provided for an employer contribution surcharge to fund health care benefits. The surcharge is equal to 14% of the difference between the min-

imum pay and the member's pay, pro-rated for partial service credit. For the fiscal years 1993 and 1994, the minimum pay has been established as \$9,900 and \$10,400, respectively. The surcharge rate, added to the unallocated portion of the 14% employer contribution rate, results in a total health care contribution rate of 6.01%. This rate is sufficient to provide level cost financing of the unfunded actuarial accrued liabilities for health care benefits assuming future health care cost inflation does not exceed future general price inflation.

Actuarial Assumptions

The assumptions used for the actuarial valuation were adopted by the Retirement Board after consulting with the actuary. The actuarial assumptions used in making the valuation were revised as set forth in the Gabriel, Roeder, Smith & Company Investigation Report dated June 3, 1991 for the period from July 1, 1985 through June 30, 1990, and were adopted as of the June 30, 1991 valuation. Differences between assumed and actual experience (actuarial gains and losses) become part of unfunded actuarial accrued liabilities. When these differences between assumed and actual experience have been observed to be sizable and persistent, a change is made to the actuarial assumptions.

The valuation assets as of June 30, 1994 were determined on a market-related basis. The method used recognizes 20% of the previously unrecognized gains and losses (both realized and unrealized). To this was added the present value of expected future payments for House Bills 284 and 204, or \$2,636,404.

The following significant assumptions were used in the actuarial valuations as of June 30, 1994:

- (1) a rate of return on the investments of 7.75% compounded annually (net after administrative expenses). The real rate of return is the portion of total investment return which is more than the inflation rate.

ACTUARIAL SECTION

STATEMENT OF ACTUARY (CONTINUED)

Considering inflation recognition of 4.75 percent, the 7.75 percent investment return rate translates to an assumed real rate of return of 3 percent;

- (2) projected salary increases of 4.75%, compounded annually, attributable to inflation;
- (3) additional projected salary increases ranging from 0% to 3% per year, attributable to seniority and merit. Pay increase assumptions for individual active members are shown for sample ages in the following table.

Increase Next Year			
Sample Age	Merit & Seniority	Base (Economy)	Total
20	3.0%	4.75%	7.75%
30	2.3	4.75	7.05
40	1.8	4.75	6.55
50	1.0	4.75	5.95
60	0.0	4.75	4.75

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

Probabilities of Age & Service Retirement
Percent of Eligible Active Members
Retiring within Next Year

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

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

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

Probabilities of Separation from Active Employment before Age & Service Retirement
Percent of Active Members
Separating within Next Year

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

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

- (7) premiums and spouse coverage deductions are assumed to increase at 4.75% annually;
- (8) 25% of eligible female retirants and 60% of eligible male retirants are assumed to elect a joint and survivor form of payment;
- (9) 25% of eligible female retirants and 50% of eligible male retirants are assumed to elect to cover spouses for health care. The System will pay the premium for dependents less a deduction during the life of the retirant;
- (10) eligibility of all health care benefit recipients for Medicare on attainment of age 65, or immediately if retired for disability.

STATEMENT OF ACTUARY (CONTINUED)

Health Care Premium Rates:

Status	Monthly Rates Reported	
	1994	1993
Benefit recipient under age 65	\$351.22	\$385.14
Spouse under age 65*	75.87	69.74
Benefit recipient age 65 and over, eligible for Medicare	58.98	55.09
Spouse age 65 and older, eligible for Medicare*	16.14	15.58
Mail order prescription service	43.82	42.34

*System portion

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

Actuarial Accrued Liabilities

Accrued liabilities are the present value of plan promises to pay benefits in the future, based upon service already rendered. A liability has been established (accrued) because the service has been performed, but the resulting monthly cash benefit may not be payable until years in the future. Accrued liabilities are the result of complex mathematical calculations performed by a group of specialists, the plan's actuaries. The results of the computed actuarial accrued liabilities, using the entry age normal actuarial cost method, are disclosed in the following schedule.

ACTUARIAL ACCRUED LIABILITIES JUNE 30, 1994

Present Value of	Health Care	Basic Benefits
Future monthly benefits and death benefits to present retirants and survivors	\$ 853,165,320	\$2,425,523,672
Monthly benefits and refunds to present inactive members	48,359,363	112,964,990
Service allowances and health care benefits to present active members	893,136,690	2,660,473,130
Disability allowances and health care benefits to present active members	25,482,802	108,233,646
Death-after-retirement benefit (\$500) on behalf of present active members	-	1,354,056
Survivor benefits on behalf of present active members who die before retiring	14,077,672	34,591,030
Refunds of member contributions of present active members	-	38,324,791
Benefits for present active members	\$ 932,697,164	\$2,842,976,653
Benefits for present covered persons	\$1,834,221,847	\$5,381,465,315

ACTUARIAL SECTION

STATEMENT OF ACTUARY (CONTINUED)

Membership Data

Information regarding active, inactive, and retired members is obtained from computer tapes provided by the

retirement system. Membership data contained on the computer tapes is examined and tested for reasonableness.

Active Member Valuation Data, 1985 to 1994

Actuarial Valuation as of June 30	Number of Active Members	Annual Payroll (millions)	Average Annual Salary
1985	86,838	\$804.2	\$9,261
1986	88,310	869.1	9,842
1987	89,534	931.4	10,403
1988	90,418	981.8	10,858
1989	91,778	1,055.4	11,500
1990	93,147	1,118.7	12,010
1991	93,574	1,176.2	12,570
1992	97,497	1,244.3	12,762
1993	99,135	1,312.7	13,242
1994	99,918	1,360.9	13,620

Retirants and Beneficiaries Added To and Removed From Rolls, 1985 to 1994

Fiscal Year Ended June 30	Additions During Year	Deletions During Year	Number at End of Year
1985	3,233	1,325	38,708
1986	3,807	1,478	41,037
1987	3,155	1,522	42,670
1988	3,512	2,215	43,967
1989	3,140	1,432	45,675
1990	3,714	2,072	47,317
1991	3,534	2,384	48,467
1992	3,488	2,360	49,595
1993	3,303	2,493	50,405
1994	4,055	2,981	51,479

Summary of Unfunded Accrued Liabilities

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

In an inflationary economy, the value of the dollar is decreasing. This environment results in employee pay increasing in dollar amounts, retirement benefits increas-

ing in dollar amounts, and the unfunded accrued liabilities increasing in dollar amounts; all at a time when the actual substance of these items may be decreasing. Looking at just the dollar amounts of unfunded accrued liabilities can be misleading. Unfunded accrued liabilities divided by active employee payroll provides an index which clarifies understanding. The smaller the ratio of unfunded liabilities to active member payroll, the stronger the system. Observation of this relative index over a period of years will give an indication of whether the system is becoming financially stronger or weaker.

STATEMENT OF ACTUARY (CONTINUED)

BASIC BENEFITS (\$ IN MILLIONS)

Valuation Year	Actuarial Accrued Liabilities (AAL)	Valuation Assets	Unfunded Actuarial Accrued Liabilities (UAAL)	Ratio of Assets to AAL	Active Member Payroll	UAAL as a % of Active Member Payroll
1985	\$2,405	\$1,564	\$841	65%	\$804	105%
1985*	2,422	1,564	858	65	804	107
1986	2,670	1,781	889	67	869	102
1987	2,899	2,007	892	69	931	96
1988#	3,307	2,204	1,103	67	982	112
1989	3,658	2,438	1,220	67	1,055	116
1990	4,003	2,686	1,317	67	1,119	118
1991	4,265	3,015	1,250	71	1,176	106
1991*	4,346	3,015	1,331	69	1,176	113
1992	4,693	3,330	1,363	71	1,244	110
1993	5,052	3,673	1,379	73	1,313	105
1994	5,381	3,952	1,429	73	1,361	105

HEALTH CARE BENEFITS (\$ IN MILLIONS)

1985	\$ 681	\$120	\$ 561	18%	\$ 804	70%
1985*	760	120	640	16	804	80
1986	865	131	734	15	869	85
1987	1,051	137	914	13	931	98
1988#	1,051	139	912	13	982	93
1989	1,128	152	976	14	1,055	93
1990	1,205	158	1,047	13	1,119	94
1991	1,295	157	1,138	12	1,176	97
1991*	1,311	157	1,154	12	1,176	98
1992	1,518	154	1,364	10	1,244	110
1993	1,801	141	1,660	8	1,313	126
1994	1,834	141	1,693	8	1,361	124

* Revised Assumptions

Legislated Benefit Increases

ACTUARIAL SECTION

STATEMENT OF ACTUARY (CONTINUED)

Short Condition Test

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

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

- 1) Active member contributions on deposit;
- 2) The liabilities for future benefits to present retired lives;

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

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

BASIC BENEFITS (\$ IN MILLIONS)

JUNE 30	BASIC BENEFITS (\$ IN MILLIONS)				PORTION OF ACCRUED LIABILITIES COVERED BY ASSETS		
	(1)	(2)	(3)	(4)	(1)	(2)	(3)
	MEMBER CONTRIBUTIONS	RETIRED LIVES	PRESENT MEMBERS (EMPLOYER PORTION)	VALUATION ASSETS			
1985	\$433	\$1,126	\$846	\$1,564	100%	100%	1%
1985*	433	1,101	888	1,564	100	100	3
1986	475	1,228	967	1,781	100	100	8
1987	524	1,341	1,034	2,007	100	100	14
1988	577	1,462	1,134	2,205	100	100	15
1988#	577	1,513	1,217	2,204	100	100	9
1989	627	1,696	1,335	2,438	100	100	9
1990	684	1,872	1,447	2,686	100	100	9
1991	749	2,025	1,491	3,015	100	100	16
1991*	749	1,973	1,624	3,015	100	100	18
1992	816	2,123	1,754	3,330	100	100	22
1993	889	2,261	1,902	3,673	100	100	27
1994	962	2,426	1,994	3,952	100	100	28

HEALTH CARE BENEFITS (\$ IN MILLIONS)

JUNE 30	HEALTH CARE BENEFITS (\$ IN MILLIONS)				PORTION OF ACCRUED LIABILITIES COVERED BY ASSETS		
	(1)	(2)	(3)	(4)	(1)	(2)	(3)
	MEMBER CONTRIBUTIONS	RETIRED LIVES	PRESENT MEMBERS (EMPLOYER PORTION)	VALUATION ASSETS			
1985	-	\$386	\$295	\$120	-	31%	0%
1985*	-	391	369	120	-	31	0
1986	-	461	404	131	-	28	0
1987	-	562	489	137	-	24	0
1988	-	623	569	139	-	22	0
1988#	-	584	467	139	-	24	0
1989*	-	640	488	152	-	24	0
1990	-	686	519	158	-	23	0
1991	-	731	564	157	-	21	0
1991*	-	725	586	157	-	22	0
1992	-	833	685	153	-	18	0
1993	-	852	949	141	-	17	0
1994	-	853	981	141	-	17	0

* Revised Assumptions

Legislated Benefit Increase

Statistical Section

COMPARATIVE SUMMARY OF ASSETS,
LIABILITIES AND PERCENTAGE OF FUND
BY NET ASSETS AVAILABLE FOR BENEFITS
BENEFIT EXPENSE BY TYPE
NUMBER OF BENEFIT RECIPIENTS BY TYPE
NUMBER OF PARTICIPATING EMPLOYEES
RETIREMENT AVERAGE

STATISTICAL SECTION

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

TABLE I

COMPUTED ACTUARIAL ACCRUED LIABILITIES

June 30	Member Contributions	Current Retirants and Beneficiaries	Active Members, Employer Financed Portion	Net Assets Available for Benefits	Percentage of Accrued Liabilities Covered By Net Assets Available For Benefits		
					(1)	(2)	(3)
1985	\$432,528,863	\$1,511,799,217	\$1,141,424,734	\$1,675,733,161	100	82	0
1986	475,218,163	1,688,209,450	1,371,411,464	1,876,240,825	100	83	0
1987	524,262,202	1,903,559,908	1,522,516,727	2,062,983,466	100	81	0
1988	577,028,334	2,096,925,418	1,684,513,116	2,239,651,064	100	79	0
1989	627,076,019	2,336,503,192	1,821,748,962	2,455,595,491	100	78	0
1990	683,812,888	2,557,636,065	1,967,248,110	2,661,597,552	100	77	0
1991	748,783,498	2,697,874,221	2,210,527,169	2,863,137,140	100	78	0
1992	816,328,094	2,956,651,040	2,438,570,210	3,065,412,517	100	76	0
1993	889,126,855	3,112,877,210	2,850,184,218	3,294,641,307	100	77	0
1994	961,669,425	3,278,688,992	2,975,328,745	3,575,939,975	100	80	0

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

In a system that has been following the discipline of level percent of payroll financing, the liabilities for active member contributions on deposit (1) and the liabilities for

future benefits to present retired lives (2) will be fully covered by present assets (except in rare circumstances). In addition, the liabilities for service already rendered by active members (3) will be partially covered by the remainder of present assets. The larger the funded portion of liability (3) the stronger the condition of the System. Liability (3) being fully funded is rare.

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

**BENEFIT EXPENSES BY TYPE
LAST TEN YEARS**

TABLE II

Year Ending June 30	Benefits					Total
	Service	Disability	Survivor	Health Care	Death Benefits and Refunds	
1985	\$96,910,985	\$10,527,898	\$8,004,136	\$30,778,698	\$8,937,228	\$155,158,945
1986	108,321,454	11,785,441	8,360,152	37,499,209	9,698,738	175,664,994
1987	118,726,020	12,780,695	8,958,365	51,728,280	10,862,247	203,055,607
1988	129,330,510	14,138,302	9,479,476	50,568,576	10,453,137	213,970,001
1989	144,870,006	15,968,925	10,154,865	55,688,417	12,119,325	238,801,538
1990	162,866,492	18,077,033	10,886,380	62,746,014	13,242,633	267,818,552
1991	173,348,030	19,854,430	11,358,736	71,633,065	13,076,201	289,270,462
1992	185,750,980	22,258,565	11,814,421	81,851,492	13,498,111	315,173,569
1993	198,878,409	24,987,872	12,666,260	87,079,286	14,288,721	337,900,548
1994	212,437,443	27,367,790	13,067,061	85,496,108	14,713,825	353,082,227

**NUMBER OF BENEFIT RECIPIENTS BY TYPE
LAST TEN YEARS**

TABLE III

Year Ending June 30	Service	Disability	Survivor	Total
1985	33,145	2,754	2,809	38,708
1986	35,266	2,898	2,873	41,037
1987	36,750	2,977	2,943	42,670
1988	37,877	3,084	3,006	43,967
1989	39,408	3,204	3,063	45,675
1990	40,856	3,349	3,112	47,317
1991	41,773	3,518	3,176	48,467
1992	42,690	3,661	3,244	49,595
1993	43,166	3,960	3,279	50,405
1994	44,024	4,081	3,374	51,479

**NUMBER OF PARTICIPATING EMPLOYERS
LAST TEN YEARS**

TABLE IV

Year	Total	Counties	Locals	Cities	Villages	Colleges	Technical	Vocational	Other
1985	768	86	376	192	49	2	13	49	1
1986	769	86	376	192	49	2	13	49	2
1987	769	86	376	192	49	2	13	49	2
1988	768	84	376	192	49	2	13	49	3
1989	766	84	373	192	49	2	13	49	4
1990	766	84	373	192	49	2	13	49	4
1991	765	84	372	192	49	2	13	49	4
1992	764	84	371	192	49	2	13	49	4
1993	764	84	371	192	49	2	13	49	4
1994	765	83	372	192	49	2	13	49	5

STATISTICAL SECTION

RETIREMENT AVERAGES LAST TEN YEARS

TABLE V

Service Retirement

<u>Year Ending June 30</u>	<u>Service Credit</u>	<u>Monthly Amount</u>	<u>Age</u>	<u>Salary</u>
1985	17.821	\$315.79	63.82	\$10,525
1986	16.846	304.73	63.64	10,292
1987	17.635	328.76	63.77	10,458
1988	19.019	378.29	62.13	11,989
1989	19.231	431.17	61.40	13,015
1990	18.734	424.85	60.75	13,034
1991	18.909	447.56	63.35	13,352
1992	19.528	517.85	63.21	15,298
1993	20.211	549.01	63.45	15,984
1994	20.551	589.07	63.34	16,704

Disability Retirement

<u>Year Ending June 30</u>	<u>Service Credit</u>	<u>Monthly Amount</u>	<u>Age</u>	<u>Salary</u>
1985	12.362	\$402.31	56.69	\$10,917
1986	13.339	431.18	56.20	10,872
1987	13.484	466.02	57.42	12,184
1988	13.086	509.27	54.64	13,060
1989	14.821	562.42	54.31	13,433
1990	14.018	551.12	53.51	13,539
1991	14.517	598.58	55.56	14,414
1992	14.595	674.50	54.80	15,644
1993	15.123	709.53	56.42	16,652
1994	15.148	738.03	58.20	17,370

Investment Section

INVESTMENT DISTRIBUTION BY MARKET VALUE

TEN-YEAR INVESTMENT CORRELATION

INVESTMENT REPORT

TIME-WEIGHTED RATES OF RETURN

OHIO INVESTMENT PROFILE

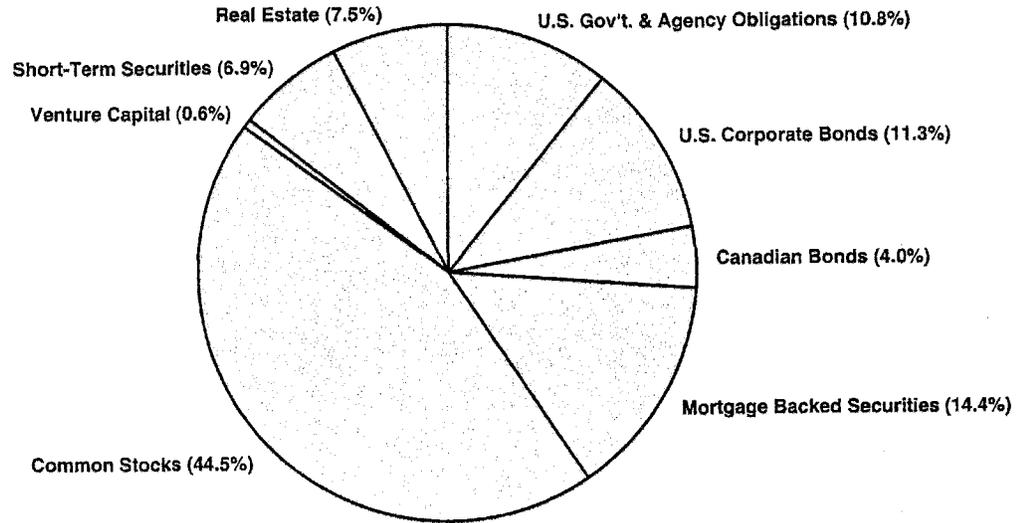
TEN-YEAR INVESTMENT PORTFOLIO SUMMARY

INVESTMENT PORTFOLIO

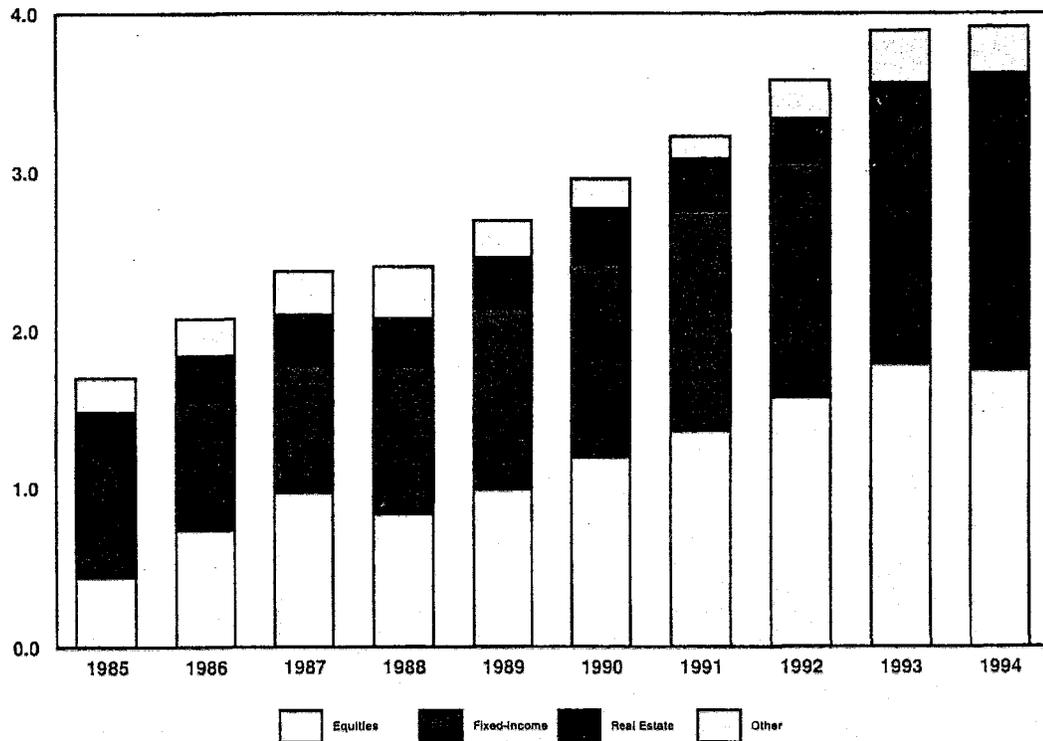
INVESTMENT BOARD

INVESTMENT SECTION

INVESTMENT DISTRIBUTION BY MARKET VALUE AS OF JUNE 30, 1994



TEN YEAR INVESTMENT COMPARISON AT MARKET VALUE (IN BILLIONS)



INVESTMENT REPORT

Introduction

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

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

Asset Allocation

Because of the legislation enacted early in the fiscal year, the Board and staff of SERS embarked on an extensive review of SERS' asset allocation and long-term liability structure. This review, in conjunction with a national investment consultant, led SERS' Board to revise its goals for each asset class. The revisions are as follows:

- The Domestic Equity goal was increased from 35% of the Total Fund to 45%.
- The International Equity goal, not permitted until the state statute change, was established at 10% of the Total Fund.
- The Domestic Fixed-Income goal was reduced from 40% of the Total Fund to 30%.
- The Real Estate goal was reduced from 20 % of the Total Fund to 10%.

- The Cash Equivalents goal was unchanged at 5% of the Total Fund.

These goals were adopted by the Board in May, 1994. Staff then proceeded to design a plan, in conjunction with the Investment Consultant, to prudently attain these revised goals. The Plan prepared for the Board indicates that the goals established by the Board in May, 1994 will be achieved by June, 1995. The Board and staff feel that the Implementation Plan is very aggressive, but it can be accomplished in a prudent manner with the diligent work of the Board, staff and the Investment Consultant.

Fund Performance

For the fiscal year ended June 30, SERS' equity portfolios returned 1.3% versus the S&P 500's return of 1.4%. Equities in general performed worse than normally expected, but they still had positive returns for the year. For the last ten years, SERS' equity portfolios returned 14.3% versus the S&P 500's 15.1% return. The equity returns for the longer term have been above normal.

The fixed-income returns of the major indexes were negative for the fiscal year. This is the first time since the fiscal year ended June 30, 1981 that fixed-income returns have been negative. SERS' fixed-income portfolios returned a negative 2.5% for the fiscal year versus a negative 1.5% for the Lehman Brothers Government/-Corporate Index. For ten years SERS' fixed-income portfolios have returned 12.0% versus 12.0% for the Lehman Index. The returns for fixed-income over the last ten years are above what is normally expected from fixed-income investments.

As we mentioned last year, real estate prices seem to have stabilized. SERS' real estate portfolios returned 7.2% during the fiscal year versus 4.5% for the Russell-NCREIF Property Index. Real estate was the best performing asset class in SERS' Fund during the fiscal year.

INVESTMENT SECTION

For the last ten years, however, equities and fixed-income investments outperformed real estate. SERS' real estate portfolios returned 10.0% for the last ten years versus 3.5% for the Russell-NCREIF Index.

The Total Fund returned 0.6% for the fiscal year and 11.2% for the last ten years. This compares quite favorably to the Total Fund's benchmark return of 1.0% for the year and 11.1% for the last ten years.

Fund Strategy

As mentioned previously, SERS' Investment Staff will be working to implement the Asset Allocation Plan adopted by the Board in May, 1994. SERS' initial investment in international securities is expected to be made before December 31, 1994. The initial investment will probably

be made in a passively managed international index fund. SERS also expects to broaden the domestic index fund currently invested in to include more small and medium-sized companies. Between January, 1995 and June 30, 1995, SERS intends to hire additional domestic and international money managers to actively manage equity assets. The investment staff expects to attain the asset allocation goals established by the Board for domestic and international equities by June 30, 1995. The attainment of the real estate goal will depend upon the availability of good quality, suitable, institutional grade properties at a reasonable price. The investment staff will endeavor to be very close to the real estate asset allocation goal by June 30, 1995, but will only invest in properties which add value to the real estate portfolios and SERS' Total Fund.

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

	Average Annual Return					
	1994	1993	1992	3-Year	5-Year	10-Year
Common stocks						
SERS	1.3%	12.7%	13.0%	8.9%	10.1%	14.3%
Standard & Poor's 500	1.4	13.6	13.4	9.3	10.3	15.1
Fixed-income						
SERS	(2.5)	10.4	14.9	7.3	8.6	12.0
Lehman Bros. Gov't./Corp. Index	(1.5)	13.2	14.2	8.4	8.5	12.0
Real estate/Participating mortgages						
SERS	7.2	(3.9)	(5.8)	(1.0)	0.2	10.0
Russell-NCREIF	4.5	(3.3)	(7.1)	(2.2)	(0.4)	3.5
Short-term						
SERS	3.5	3.3	4.9	3.9	5.6	6.8
U.S. Treasury Bills	3.1	2.9	4.4	3.5	4.9	5.8
Venture capital						
SERS	49.9	20.6	4.1	25.5	8.3	5.0
Total portfolio						
SERS	0.6	9.7	11.0	7.0	8.2	11.2
*Balanced Index	1.0	9.4	9.3	6.4	7.3	11.1

Source: Ronald A. Karp Associates

*Balanced Index (35% of S&P 500, 40% Lehman Bros., 20% Russell-NCREIF, 5% U.S. T-Bill)

OHIO INVESTMENT PROFILE AS OF JUNE 30, 1994

SERS continues to seek out high-quality Ohio investments. Total SERS investments in Ohio are valued at more than \$313 million which represents approximately 8% of the market value of the Total Fund.

Mortgage-backed securities on Ohio properties	\$ 92,940,473
Common stock of companies headquartered in Ohio	106,471,677
Corporate bonds and notes of companies headquartered in Ohio	18,180,000
Commercial paper of companies headquartered in Ohio	18,658,237
Real estate in Ohio	47,010,950
Commercial mortgages in Ohio properties	7,725,303
Venture capital funds managed by Ohio firms	22,355,861
Total	\$ 313,342,501

INVESTMENT SECTION

TEN YEAR INVESTMENT PORTFOLIO SUMMARY YEARS ENDED JUNE 30

Dollars (In Millions)

	Short Term Securities			Bonds			Mortgage Backed Securities			Venture Capital		
	Market Value	% Of Market Value	Rate Of Return	Market Value	% Of Market Value	Rate Of Return	Market Value	% Of Market Value	Rate Of Return	Market Value	% Of Market Value	Rate Of Return
1985	\$204.5	12.0%	9.5%	\$441.0	26.0%	34.5%	\$305.3	18.0%	35.5%	\$12.0	0.7%	(0.3)%
1986	219.8	10.6	7.9	457.7	22.1	19.4	347.8	16.8	16.5	14.7	0.7	0.0
1987	242.7	10.2	6.4	472.8	19.9	4.2	324.2	13.7	9.0	19.8	0.8	0.4
1988	286.8	11.9	7.2	424.2	17.7	7.6	504.0	21.0	7.9	21.8	0.9	(4.6)
1989	184.4	6.8	9.4	542.5	20.1	13.5	595.5	22.1	11.9	26.6	1.0	17.1
1990	164.0	5.6	8.8	555.6	18.8	8.0	656.7	22.2	9.8	24.8	0.8	(11.9)
1991	115.5	3.6	7.5	664.8	20.6	12.2	713.3	22.1	12.2	25.3	0.8	(7.4)
1992	209.8	5.9	4.9	736.0	20.6	15.5	741.4	20.7	14.3	29.6	0.8	4.1
1993	299.5	7.7	3.3	886.8	22.8	12.3	615.6	15.8	7.8	29.5	0.8	20.6
1994	269.9	6.9	3.5	1,023.3	26.1	(3.5)	562.0	14.4	(0.2)	22.4	0.6	49.9

	Real Estate			Equities			Other*			Total Investment Portfolio		
	Market Value	% Of Market Value	Rate Of Return	Market Value	% Of Market Value	Rate Of Return	Market Value	% Of Market Value	Rate Of Return	Market Value	% Of Market Value	Rate Of Return
1985	\$296.9	17.5%	13.7%	\$438.2	25.8%	24.5%	-	-	-	\$1,697.9	100.0%	25.3%
1986	299.5	14.4	11.8	732.1	35.3	37.6	\$ 1.9	0.1%	-	2,073.5	100.0	21.3
1987	335.3	14.2	6.9	965.2	40.7	23.3	12.1	0.5	-	2,372.1	100.0	12.7
1988	313.4	13.0	(0.5)	831.8	34.6	(7.1)	21.7	0.9	(11.0)%	2,403.7	100.0	0.9
1989	336.1	12.5	4.5	985.0	36.6	19.4	23.1	0.9	8.4	2,693.2	100.0	12.9
1990	362.1	12.3	2.8	1,192.2	40.3	15.5	-	-	-	2,955.4	100.0	10.3
1991	345.7	10.7	1.1	1,361.4	42.2	8.7	-	-	-	3,226.0	100.0	9.7
1992	289.9	8.1	(5.8)	1,570.2	43.9	13.0	-	-	-	3,576.9	100.0	11.0
1993	276.9	7.1	(3.9)	1,783.1	45.8	12.7	-	-	-	3,891.4	100.0	9.7
1994	294.8	7.5	7.2	1,742.2	44.5	1.3	-	-	-	3,914.6	100.0	0.6

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

INVESTMENT PORTFOLIO
AS OF JUNE 30, 1994

FIXED-INCOME PORTFOLIO

DESCRIPTION	RATING	COUPON	MATURE DATE	PAR VALUE	BOOK VALUE	MARKET VALUE
Canadian Bonds:						
Ontario Hydro	A-	5.800	03/31/98	\$20,000,000	\$19,805,895	\$19,280,000
Ontario Province	A-	5.700	10/01/97	35,000,000	34,740,299	33,687,500
Ontario Province	A-	7.375	01/27/03	32,000,000	33,566,129	30,832,000
Ontario Province	A-	7.750	06/04/02	13,000,000	13,814,078	12,928,500
Ontario Province	A-	8.000	10/17/01	20,000,000	22,070,216	20,374,600
Quebec Hydro	A+	6.980	02/28/05	10,000,000	10,000,000	9,162,500
Quebec Hydro	A+	7.000	04/12/05	10,000,000	10,014,232	9,168,700
Quebec Hydro	A+	7.020	03/23/05	12,000,000	12,589,554	11,024,160
Quebec Hydro	A+	7.375	02/01/03	10,000,000	10,400,462	9,494,000
TOTAL				\$162,000,000	\$167,000,865	\$155,951,960
Corporate Bonds:						
Alltel Corporation	A+	6.500	11/01/13	\$15,000,000	\$14,887,968	\$12,510,150
Archer Daniels Midland Co.	AA-	6.250	05/15/03	10,000,000	10,399,239	9,056,200
Archer Daniels Midland Co.	AA-	8.125	06/01/12	20,000,000	20,989,736	19,998,200
Associates Corporation	AA-	5.750	10/15/03	10,000,000	9,663,892	8,550,900
Associates Corporation	AA-	6.875	02/01/03	5,000,000	5,218,479	4,632,550
Associates Corporation	AA-	7.600	12/17/02	15,000,000	15,000,000	14,753,550
Associates Corporation	AA-	7.650	12/23/02	5,000,000	5,000,000	4,932,150
BP America Inc.	AA-	8.750	02/01/03	22,000,000	22,853,753	23,244,760
Bank One Corporation	A+	7.250	08/01/02	18,000,000	19,284,722	18,180,000
Bellsouth Telecommunications	AAA	5.875	01/15/09	15,000,000	14,989,168	12,403,050
Bristol Myers Squibb	AAA	7.150	06/15/23	35,000,000	36,045,111	33,600,000
Coca-Cola Company	AA	7.875	09/15/98	22,000,000	23,216,919	22,575,080
Ford Holdings	A	9.250	03/01/00	10,000,000	9,834,472	10,679,300
J.C. Penney & Company	A+	5.375	11/15/98	15,000,000	14,573,769	13,942,350
J.C. Penney & Company	A+	7.125	11/15/23	25,000,000	25,773,274	24,000,000
Johnson & Johnson	AAA	6.730	11/15/23	40,000,000	38,209,548	34,600,000
Johnson & Johnson	AAA	7.375	06/29/02	13,000,000	13,984,997	12,783,290
Pennsylvania Power & Light	A	6.500	04/01/05	5,000,000	5,211,551	4,496,950
Pennsylvania Power & Light	A	7.750	05/01/02	7,000,000	7,175,430	6,975,570
Pepsico Incorporated	A	7.625	11/01/98	24,000,000	24,727,183	24,216,240
Pepsico Incorporated	A	7.750	10/01/98	20,000,000	21,132,795	20,474,000
Shell Oil Company	AAA	6.700	08/15/02	5,000,000	5,297,805	4,704,250
South Carolina Electric & Gas	A	7.125	06/15/13	15,000,000	15,787,420	13,885,500
Union Electric Company	AA-	6.875	08/01/04	8,000,000	8,687,374	7,394,880
Union Electric Company	AA-	7.650	07/15/03	17,000,000	18,457,800	16,800,080
Wal-Mart Stores	AA	5.875	10/15/05	5,000,000	4,998,850	4,280,900
Wal-Mart Stores	AA	6.500	06/01/03	25,000,000	26,135,199	23,025,250
Wal-Mart Stores	AA	6.750	10/15/23	15,000,000	14,953,640	12,558,300
Walt Disney Company	AA-	5.800	10/27/08	13,000,000	13,000,000	10,631,530
Wisconsin Electric Power	AA+	7.250	08/01/04	10,000,000	9,963,156	9,563,000
Wisconsin Public Service	AA+	6.800	02/01/03	5,000,000	5,355,013	4,682,150
TOTAL				\$469,000,000	\$480,808,263	\$444,130,130

INVESTMENT SECTION

INVESTMENT PORTFOLIO (CONTINUED)

FIXED-INCOME PORTFOLIO (CONTINUED)

DESCRIPTION	RATING	COUPON	MATURE DATE	PAR VALUE	BOOK VALUE	MARKET VALUE
U.S. Government & Agency Bonds:						
FHLMC Cap Debenture	AAA	8.800	10/27/99	\$20,000,000	\$19,812,199	\$19,912,400
FHLMC Cap Debenture	AAA	11.400	05/01/95	10,000,000	10,050,529	10,465,600
Federal Home Loan Bank	AAA	9.200	08/25/97	13,000,000	13,294,650	13,938,470
Government Loan Trusts	AAA	7.750	04/01/98	6,354,090	6,345,287	6,486,700
Treasury Bond	AAA	6.250	08/15/23	49,000,000	48,598,266	41,175,190
Treasury Bond	AAA	7.125	02/15/23	50,000,000	52,354,900	46,804,500
Treasury Note	AAA	6.250	02/15/03	50,000,000	51,929,952	46,937,500
Treasury Note	AAA	7.000	04/15/99	25,000,000	25,996,645	25,062,500
Treasury Note	AAA	7.125	10/15/98	53,000,000	55,722,070	53,513,570
Treasury Note	AAA	7.500	05/15/02	40,000,000	43,677,863	40,568,800
Treasury Note	AAA	7.875	08/15/01	27,000,000	29,248,512	28,012,500
Treasury Note	AAA	8.000	05/15/01	25,000,000	26,959,559	26,113,250
Treasury Note	AAA	8.125	02/15/98	20,000,000	21,140,477	20,896,800
Treasury Note	AAA	9.000	05/15/98	10,000,000	10,085,155	10,750,000
Treasury Note	AAA	9.125	05/15/99	10,000,000	10,213,456	10,898,400
Treasury Note	AAA	9.250	08/15/98	20,000,000	20,437,133	21,718,800
TOTAL				\$428,354,090	\$445,866,653	\$423,254,980

Mortgage Passthroughs:

FHLMC CMO Series L-5	AAA	7.900	05/01/01	\$4,545,633	\$4,373,463	\$5,341,119
FHLMC CMO Series M-6	AAA	8.800	12/01/15	6,756,829	6,595,344	8,513,605
FHLMC GMC Series D-1979	AAA	12.450	09/15/09	9,809,800	9,471,286	13,341,328
FHLMC Series 1261-I	AAA	8.000	09/15/20	20,621,000	20,376,211	20,389,014
FHLMC GOLD C80003	AAA	8.000	11/01/22	9,957,087	10,070,267	9,820,177
FHLMC GOLD C90041	AAA	6.500	11/01/13	5,367,203	5,426,505	4,840,519
FHLMC GOLD D1-6930	AAA	7.500	03/01/22	2,972,918	2,880,514	2,855,845
FHLMC GOLD D1-9553	AAA	8.000	05/01/22	1,889,283	1,896,331	1,863,305
FHLMC GOLD D2-1672	AAA	8.000	06/01/22	4,505,116	4,552,998	4,443,171
FHLMC GOLD D2-6815	AAA	7.500	06/01/22	7,018,882	6,968,678	6,742,478
FHLMC Series 1166-PF	AAA	7.900	10/15/17	7,676,980	7,678,964	7,729,721
FHLMC MUL-FAM220022	AAA	9.250	06/01/02	11,763,114	11,627,847	12,729,807
FHLMC MUL-FAM490011	AAA	10.000	09/01/97	3,594,254	3,595,780	3,949,187
FHLMC Series 12A	AAA	9.250	11/15/19	6,473,680	6,443,303	6,724,535
FHLMC Series 1A	AAA	10.150	04/15/06	3,617,323	3,617,323	3,749,573
FHLMC Series 1C	AAA	9.250	08/15/13	1,556,785	1,545,975	1,576,728
FHLMC Series 23D	AAA	9.600	11/15/17	115,354	114,650	115,281
FHLMC Series 2C	AAA	9.450	05/15/13	191,706	189,940	191,825
FREDDIE MAC PC	AAA	9.000	Various	4,494,250	4,488,552	4,609,154
FREDDIE MAC PC	AAA	9.250	Various	2,490,608	2,484,432	2,564,529
FREDDIE MAC PC	AAA	9.500	Various	3,483,965	3,467,647	3,640,744
FREDDIE MAC PC	AAA	10.000	Various	6,568,116	6,562,942	6,956,029
FREDDIE MAC PC	AAA	10.500	Various	6,452,789	6,441,098	6,991,145
FREDDIE MAC PC	AAA	12.000	Various	850,908	850,912	946,099

INVESTMENT PORTFOLIO (CONTINUED)

FIXED-INCOME PORTFOLIO (CONTINUED)

DESCRIPTION	RATING	COUPON	MATURE DATE	PAR VALUE	BOOK VALUE	MARKET VALUE
Mortgage Passthroughs (Continued)						
FREDDIE MAC PC	AAA	12.500	Various	\$ 356,823	\$ 356,823	\$ 407,225
FREDDIE MAC PC	AAA	13.000	Various	35,345	35,345	40,691
FREDDIE MAC PC	AAA	14.000	Various	112,384	112,384	130,084
FREDDIE MAC PC	AAA	14.750	Various	536,052	536,052	620,480
FREDDIE MAC PC	AAA	15.000	Various	82,936	82,936	95,998
FREDDIE MAC PC	AAA	16.250	Various	27,757	27,757	32,294
GNMA I	AAA	6.500	Various	113,567,966	113,052,342	106,683,421
GNMA I	AAA	7.000	Various	72,179,257	73,442,187	69,677,355
GNMA I	AAA	7.500	Various	72,045,908	72,321,314	69,704,416
GNMA I	AAA	8.000	Various	56,877,051	56,600,025	56,237,184
GNMA I	AAA	8.500	Various	20,177,170	20,083,731	20,400,361
GNMA I	AAA	9.000	Various	37,531,335	37,438,806	38,800,778
GNMA I	AAA	9.500	Various	16,585,070	16,560,621	17,463,178
GNMA I	AAA	10.000	Various	5,759,611	5,692,702	6,164,628
GNMA I	AAA	11.000	Various	2,936,247	2,936,247	3,269,523
GNMA I	AAA	11.500	Various	1,309,971	1,309,971	1,480,268
GNMA I	AAA	12.000	Various	996,252	996,002	1,134,932
GNMA I	AAA	12.500	Various	742,456	742,456	848,349
GNMA I	AAA	13.000	Various	200,482	200,385	232,559
GNMA I	AAA	13.500	Various	301,537	301,537	351,291
GNMA I	AAA	14.000	Various	112,883	112,883	130,361
GNMA I	AAA	15.000	Various	172,961	172,962	204,959
GNMA I	AAA	16.000	Various	170,342	170,342	202,708
GNMA II	AAA	9.000	Various	12,757,653	12,731,229	13,035,642
GNMA II	AAA	9.500	Various	1,073,342	1,064,265	1,114,590
GNMA II	AAA	10.000	Various	5,574,476	5,575,716	5,880,970
GNMA II	AAA	10.500	Various	2,256,444	2,248,603	2,427,775
GNMA II	AAA	11.000	Various	297,120	295,681	323,860
GNMA II	AAA	11.500	Various	1,034,438	1,033,646	1,143,054
GNMA II	AAA	12.000	Various	630,534	630,534	703,045
GNMA II	AAA	12.500	Various	1,984,267	1,983,332	2,232,300
GNMA II	AAA	13.000	Various	177,724	177,724	201,717
TOTAL				\$561,377,377	\$560,747,502	\$562,000,914
FHA/VA MORTGAGES:						
FHA	AAA	Various	Various	\$7,696	\$7,696	\$7,398
VA	AAA	Various	Various	16,031	16,031	15,497
TOTAL				\$23,727	\$23,727	\$22,895
TOTAL FIXED-INCOME				\$1,620,755,194	\$1,654,447,010	\$1,585,360,879

INVESTMENT SECTION

INVESTMENT PORTFOLIO (CONTINUED)

SHORT-TERM PORTFOLIO

DESCRIPTION	RATING	COUPON	MATURE DATE	PAR VALUE	BOOK VALUE	MARKET VALUE
Commercial Paper	P-1	Various	Various	\$ 270,667,000	\$ 269,913,071	\$ 269,913,071

REAL ESTATE PORTFOLIO

DESCRIPTION	TYPE	BOOK VALUE	MARKET VALUE
Equitable Hawaiian Properties Fund	Commingled	\$ 22,152,300	\$ 24,535,572
Equitable Prime Property Fund	Commingled	23,832,297	18,642,291
L&B SERBO Trust Fund	Commingled	139,711,873	134,382,302
Morgan Guaranty Trust Co. of NY	Commingled	29,274,457	22,944,479
Nationsbank	Commingled	16,559,075	11,077,592
Phoenix Homelife/Casa Grp LLC	Commingled	13,032,104	12,947,813
Prudential Insurance Sep Account I	Commingled	49,405,546	37,516,230
Prudential Insurance Sep Account II	Commingled	9,683,326	7,073,185
Monroeville Mall Mortgage Loan 8%	Commercial Mortgage	25,713,269	25,713,269
TOTAL REAL ESTATE PORTFOLIO		\$329,364,247	\$294,832,733

VENTURE CAPITAL PORTFOLIO

DESCRIPTION	BOOK VALUE	MARKET VALUE
Cardinal Development Fund I	\$ 533,111	\$ 533,111
Morgenthaler Venture Partners II	5,117,108	5,117,108
Morgenthaler Venture Partners III	11,433,357	11,433,357
Primus Capital Fund	523,903	523,903
Primus Capital Fund II	4,748,382	4,748,382
TOTAL VENTURE CAPITAL PORTFOLIO	\$ 22,355,861	\$ 22,355,861

INVESTMENT PORTFOLIO (CONTINUED)

STOCK PORTFOLIO

DESCRIPTION	SHARES	BOOK VALUE	MARKET VALUE	DESCRIPTION	SHARES	BOOK VALUE	MARKET VALUE
A T & T CORP.	721,186	\$19,539,495	\$39,214,489	BANK OF BOSTON CORP.	47,400	\$1,009,653	\$1,167,225
ABBOTT LABORATORIES	668,000	12,014,445	19,372,000	BANKAMERICA CORP.	155,824	5,477,378	7,128,948
ADVANCED MICRO DEVICES	40,000	828,686	1,000,000	BANKERS TRUST NEW YORK CORP.	36,300	1,416,888	2,418,488
AETNA LIFE & CASUALTY CO.	52,200	2,303,948	2,916,675	BARD (C.R.) INC.	26,300	233,938	627,913
AFLAC INC.	140,000	3,858,203	4,725,000	BARNETT BANKS INC.	43,375	1,335,311	1,897,656
AHMANSON (H F) & CO.	54,600	1,007,885	1,030,575	BAUSCH & LOMB INC.	122,000	3,550,750	4,514,000
AIR PRODUCTS & CHEMICALS	52,900	748,071	2,241,638	BAXTER INTERNATIONAL INC.	123,900	2,747,277	3,252,375
AIRTOUCH COMMUNICATIONS INC.	205,800	2,366,033	4,862,025	BECTON DICKINSON & CO.	34,800	780,643	1,422,450
ALBERTO-CULVER CO.	11,400	51,894	246,525	BELL ATLANTIC CORP.	195,700	6,444,746	10,959,200
ALBERTSON'S INC.	112,600	1,388,659	3,096,500	BELLSOUTH CORP.	222,650	7,092,588	13,748,638
ALCAN ALUMINIUM LTD.	100,600	2,062,320	2,288,650	BEMIS CO.	23,000	91,094	511,750
ALCO STANDARD CORP.	157,516	4,316,538	8,998,102	BENEFICIAL CORPORATION	22,800	699,180	832,200
ALEXANDER & ALEXANDER SERVICE	15,000	299,745	243,750	BETHLEHEM STEEL CORP.	44,600	551,213	830,675
ALLERGAN INC.	30,400	671,759	657,400	BEVERLY ENTERPRISES	20,000	183,100	242,500
ALLIEDSIGNAL INCORPORATED	130,800	2,329,145	4,528,950	BIOMET INCORPORATED	55,300	591,075	573,736
ALUMINUM CO OF AMERICA	39,700	1,689,437	2,903,063	BLACK & DECKER CORP.	32,300	705,653	557,175
ALZA CORPORATION	31,800	933,460	747,300	BLOCK H & R INC.	227,200	4,987,011	8,917,600
AMDAHL CORP.	60,400	680,444	332,200	BLOCKBUSTER ENT. CORP.	100,600	2,213,676	2,603,025
AMERADA HESS CORP.	41,600	1,310,114	2,048,800	BOATMEN'S BANCSHARES	43,300	1,122,800	1,363,950
AMERICAN BARRICK RESOURCES	127,400	3,799,447	3,041,675	BOEING CO.	152,425	3,272,492	7,049,656
AMERICAN BRANDS INC.	89,700	2,198,746	2,836,763	BOISE CASCADE CORP.	16,867	503,339	373,182
AMERICAN CYANAMID CO.	42,600	1,012,785	2,385,600	BORDEN INC.	63,000	1,117,754	779,625
AMERICAN ELECTRIC POWER	87,200	1,873,387	2,463,400	BOWNE & CO. INC.	225,000	3,042,725	4,668,750
AMERICAN EXPRESS COMPANY	219,200	4,554,740	5,644,400	BRIGGS & STRATTON	6,400	185,712	428,000
AMERICAN GENERAL CORP.	96,300	1,697,956	2,660,288	BRISTOL MYERS SQUIBB	230,280	5,069,586	12,348,765
AMERICAN GREETINGS CORP.	34,000	615,184	1,020,000	BROWN FORMAN CORP. -CL B	31,800	824,856	898,350
AMERICAN HOME PRODUCTS	244,200	8,990,662	13,858,350	BROWN GROUP INC.	7,800	246,815	293,475
AMERICAN INTERNATIONAL GROUP	237,537	9,685,494	20,576,643	BROWNING-FERRIS INDS.	75,700	1,001,545	2,299,388
AMERICAN STORES CO.	62,600	819,449	1,533,700	BRUNO'S INC.	36,000	531,581	261,000
AMERITECH CORP.	245,000	4,023,908	9,340,625	BRUNSWICK CORP.	29,200	386,137	642,400
AMGEN INC.	166,100	7,828,371	7,121,538	BURLINGTON NORTHERN INC.	39,800	712,013	2,124,325
AMOCO CORP.	220,900	8,082,282	12,563,688	BURLINGTON RESOURCES	60,300	2,743,952	2,494,913
AMP INC.	47,100	1,729,842	3,249,900	CAMPBELL SOUP CO.	112,600	1,032,884	3,870,625
AMR CORPORATION	35,100	1,881,480	2,084,063	CAPITAL CITIES/ABC INC.	68,000	1,644,968	4,836,500
ANDREW CORPORATION	11,300	398,325	415,275	CARDINAL HEALTH INC.	55,000	1,466,858	2,695,000
ANHEUSER-BUSCH COS INC.	200,516	6,571,353	10,176,187	CAROLINA POWER & LIGHT CO.	70,000	1,611,050	1,618,750
APPLE COMPUTER INC.	53,400	1,832,688	1,415,100	CATERPILLAR INC.	46,400	2,336,720	4,640,000
ARCHER-DANIELS-MIDLAND CO.	146,704	979,459	3,429,206	CBS INC.	6,990	1,389,375	2,187,870
ARMCO INC.	66,600	645,088	374,625	CENTEX CORP.	15,600	214,262	401,700
ARMSTRONG WORLD INDS. INC.	19,600	375,841	913,850	CENTRAL & SOUTH WEST CORP.	81,800	1,408,514	1,738,250
ASARCO INCORPORATED	18,700	497,274	525,936	CERIDIAN CORPORATION	19,200	217,999	475,200
ASHLAND OIL INC.	27,700	1,049,415	927,950	CHAMPION INTERNATIONAL CORP.	40,700	1,280,226	1,338,013
ATLANTIC RICHFIELD CO.	71,000	4,985,151	7,259,750	CHARMING SHOPPES	48,100	775,940	450,936
AUTODESK INC.	10,000	473,000	495,000	CHASE MANHATTAN CORP.	282,100	7,379,296	10,790,325
AUTOMATIC DATA PROCESSING	62,400	811,633	3,315,000	CHEMICAL BANKING	115,500	3,970,165	4,446,750
AVERY DENNISON CORP.	29,000	670,795	841,000	CHEVRON CORP.	289,600	7,632,267	12,127,000
AVON PRODUCTS	33,100	1,229,266	1,948,763	CHRYSLER CORP.	159,000	4,935,844	7,552,500
BAKER-HUGHES INC.	63,000	1,053,716	1,291,500	CHUBB CORP.	89,000	5,227,255	6,819,625
BALL CORP.	5,400	111,758	140,400	CIGNA CORP.	29,800	1,595,523	2,175,400
BALTIMORE GAS & ELECTRIC	56,400	1,128,715	1,198,500	CINCINNATI MILACRON INC.	17,700	453,923	369,488
BANC ONE CORP.	313,857	9,085,164	10,749,602	CIRCUIT CITY STORES INC.	194,000	3,839,096	3,977,000

INVESTMENT SECTION

INVESTMENT PORTFOLIO (CONTINUED)

STOCK PORTFOLIO (CONTINUED)

DESCRIPTION	SHARES	BOOK VALUE	MARKET VALUE	DESCRIPTION	SHARES	BOOK VALUE	MARKET VALUE
CISCO SYSTEMS INC.	114,400	\$3,757,903	\$2,674,100	DRESSER INDUSTRIES INC.	68,900	\$1,650,801	\$1,412,450
CITICORP	175,400	4,643,220	6,994,075	DSC COMMUNICATIONS CORP.	50,600	981,862	989,863
CLARK EQUIPMENT CO.	6,600	330,066	394,350	DU PONT (E.I.) DE NEMOURS	301,100	6,262,523	17,539,075
CLOROX CO.	26,400	537,145	1,290,300	DUKE POWER CO.	91,100	1,887,433	3,256,825
COASTAL CORPORATION	47,900	1,689,541	1,293,300	DUN & BRADSTREET CORP.	185,500	8,766,373	10,295,250
COCA-COLA CO.	577,400	5,645,210	23,456,875	E-SYSTEMS INC.	114,700	3,924,627	4,286,913
COLGATE-PALMOLIVE CO.	67,700	1,897,696	3,537,325	EASTERN ENTERPRISES	10,500	260,877	240,188
COLUMBIA GAS SYSTEM	25,900	796,391	699,300	EASTMAN CHEMICAL COMPANY	38,350	1,154,586	1,831,213
COLUMBIA HCA HEALTHCARE	142,546	4,516,814	5,345,475	EASTMAN KODAK CO.	147,900	4,452,759	7,117,686
COMCAST COR. SPL CLASS A	99,600	2,301,865	1,792,800	EATON CORP.	33,500	596,718	1,742,000
COMMONWEALTH EDISON	95,900	2,985,765	2,181,725	ECHLIN INC.	27,100	351,176	816,388
COMMUNITY PSYCHIATRIC CNTRS.	19,000	580,195	225,625	ECHO BAY MINES LTD.	45,400	571,246	488,050
COMPAQ COMPUTER CORP.	112,000	2,344,269	3,626,000	ECOLAB, INC.	28,300	402,511	622,600
COMPUTER ASSOCIATES INT'L.	73,800	1,124,628	2,952,000	EG&G INC.	35,000	724,991	525,000
COMPUTER SCIENCES CORP.	21,600	432,216	899,100	EMERSON ELECTRIC CO.	224,900	9,333,703	12,791,188
CONAGRA INC.	114,250	1,897,422	3,484,625	ENGELHARD CORP.	44,075	366,027	1,112,894
CONRAIL INCORPORATED	35,900	1,184,503	1,965,525	ENRON CORP.	106,800	1,276,303	3,497,700
CONSOLIDATED EDISON OF N.Y.	102,700	1,840,038	2,721,550	ENSERCH CORP.	25,000	414,437	359,375
CONSOLIDATED FREIGHTWAYS INC.	9,600	282,259	228,000	ENTERGY CORP.	107,100	1,906,601	2,650,725
CONSOLIDATED NATURAL GAS CO.	41,300	969,594	1,559,075	EXXON CORP.	552,000	13,941,529	31,326,000
CONTINENTAL CORP.	29,500	1,299,210	457,250	FEDERAL EXPRESS CORPORATION	25,400	1,151,292	1,898,650
COOPER INDUSTRIES INC.	54,800	1,028,845	1,972,800	FEDERAL HOME LOAN MORT. CORP.	80,900	3,368,099	4,894,450
COOPER TIRE & RUBBER CO.	37,000	407,006	855,625	FEDERAL NATIONAL MORT. ASSN.	122,500	4,692,342	10,228,750
COORS (ADOLPH) -CL B	22,800	278,851	399,000	FEDERAL PAPER BOARD INC.	17,800	485,584	407,175
CORESTATES FINANCIAL CORP.	218,600	4,222,640	5,628,950	FIRST CHICAGO CORP.	31,900	770,656	1,535,188
CORNING INC.	92,700	994,065	3,024,336	FIRST FIDELITY BANCORPORATION	33,000	756,745	1,530,375
CPC INTERNATIONAL INC.	66,800	768,317	3,223,100	FIRST INTERSTATE BANCORP	34,800	1,700,765	2,679,600
CRANE COMPANY	13,500	325,823	356,063	FIRST MISSISSIPPI CORP.	13,200	117,918	201,300
CRAY RESEARCH INC.	12,100	355,495	273,763	FIRST UNION CORP.	76,300	2,525,656	3,519,338
CROWN CORK & SEAL INC.	39,000	752,627	1,452,750	FLEET FINANCIAL GROUP	57,700	1,714,646	2,178,175
CSX CORP.	47,497	1,486,879	3,586,024	FLEETWOOD ENTERPRISES	20,300	194,852	388,236
CUMMINS ENGINE INC.	15,200	517,902	659,300	FLEMING COMPANIES INC.	14,000	477,670	388,500
CYPRUS AMAX MINERALS CO.	41,250	1,096,388	1,227,188	FLUOR CORPORATION	38,000	1,539,111	1,928,500
DANA CORP.	37,000	523,768	1,054,500	FMC CORP.	16,600	216,281	898,475
DATA GENERAL CORPORATION	5,600	65,593	43,400	FORD MOTOR CO.	223,000	7,821,189	13,157,000
DAYTON-HUDSON CORP.	30,826	982,900	2,496,906	FOSTER WHEELER CORP	17,900	311,667	651,113
DEAN WITTER DISCOVER & CO.	77,076	2,406,649	2,890,350	FPL GROUP INC.	85,500	2,811,552	2,543,625
DEERE & COMPANY	37,800	2,528,817	2,556,225	GANNETT CO.	205,500	7,579,906	10,172,250
DELTA AIR LINES INC.	25,000	1,798,435	1,131,250	GAP INC.	65,300	1,216,380	2,791,575
DELLUXE CORP	37,900	1,272,633	999,613	GENERAL DYNAMICS CORP.	26,400	996,409	1,079,100
DETROIT EDISON CO.	66,000	1,124,025	1,633,500	GENERAL ELECTRIC CO.	930,400	20,781,295	43,379,900
DIAL CORPORATION	18,200	603,504	778,050	GENERAL MILLS INC.	73,600	1,170,510	4,020,400
DIGITAL EQUIPMENT	56,700	3,136,998	1,105,650	GENERAL MOTORS CORP.	324,500	12,658,012	16,306,125
DILLARD DEPT STORES -CL A	54,900	798,591	1,695,036	GENERAL RE CORP.	37,600	2,106,002	4,093,700
DISNEY (WALT) COMPANY	241,000	1,279,859	10,031,625	GENERAL SIGNAL CORP.	16,828	355,555	555,324
DOMINION RESOURCES INC.	75,300	1,716,081	2,739,038	GENUINE PARTS CO.	52,500	736,424	1,896,563
DONNELLEY (R.R.) & SONS CO.	73,500	1,029,719	2,039,625	GEORGIA-PACIFIC CORP	41,600	1,218,616	2,490,800
DOVER CORP.	25,200	862,547	1,483,650	GIANT FOOD INC. CL - A	20,000	505,882	392,500
DOW CHEMICAL	123,000	3,774,729	8,041,125	GIDDINGS & LEWIS INC.	12,200	295,850	189,100
DOW JONES & CO INC.	44,550	1,363,550	1,381,050	GILLETTE CO.	98,986	2,653,617	6,446,463

INVESTMENT PORTFOLIO (CONTINUED)

STOCK PORTFOLIO (CONTINUED)

DESCRIPTION	SHARES	BOOK VALUE	MARKET VALUE	DESCRIPTION	SHARES	BOOK VALUE	MARKET VALUE
GOLDEN WEST FINANCIAL CORP	28,700	\$ 772,547	\$ 1,108,536	KNIGHT-RIDDER INC.	21,500	\$ 714,007	\$ 1,099,188
GOODRICH (B.F.) CO.	11,200	369,128	487,200	KROGER CO.	45,300	841,534	1,053,225
GOODYEAR TIRE & RUBBER CO.	68,366	985,443	2,461,176	LEGGETT & PLATT INC.	130,000	1,616,402	4,875,000
GRACE (W.R.) & CO.	37,800	833,193	1,507,275	LILLY (ELI) & CO.	234,400	12,086,317	13,331,500
GRAINGER (W.W.) INC.	24,000	395,712	1,533,000	LIMITED INC.	476,400	8,417,549	8,217,900
GREAT ATLANTIC & PACIFIC TEA CO.	10,000	593,930	215,000	LINCOLN NATIONAL CORP.	42,200	850,297	1,788,225
GREAT LAKES CHEMICAL CORP.	129,200	8,206,990	6,992,950	LIZ CLAIBORNE INC.	290,700	6,762,894	5,814,000
GREAT WESTERN FINANCIAL CORP.	50,000	1,001,850	918,750	LOCKHEED CORP.	26,000	1,149,278	1,699,750
GTE CORPORATION	424,700	9,651,349	13,165,700	LONGS DRUG STORES CORP.	9,000	333,743	321,750
HALLIBURTON CO.	51,400	2,115,443	1,741,175	LORAL CORP.	35,000	560,852	1,225,000
HANDLEMAN CO.	15,800	168,852	159,975	LOTUS DEVELOPMENT CORP.	20,000	455,567	735,000
HARCOURT GENERAL INC.	36,461	701,848	1,280,693	LOUISIANA LAND & EXPLORATION	14,300	401,856	607,750
HARLAND JOHN H. CO.	16,800	365,955	365,400	LOUISIANA-PACIFIC CORP.	52,298	361,370	1,595,089
HARNISCHFEGGER INDUSTRIES INC.	13,500	265,343	263,250	LOWE'S COS.	70,000	482,185	2,397,500
HARRIS CORP.	18,300	493,130	807,488	LUBRIZOL CORP.	218,000	6,455,257	7,466,500
HARTMARX CORP.	12,300	277,800	75,338	LUBY'S CAFETERIAS INC.	16,875	252,240	379,688
HASBRO INC.	41,950	521,214	1,242,769	M/A-COM INC.	32,200	671,975	257,600
HEINZ (H.J.) CO.	275,900	6,671,752	8,794,313	MALLINCKRODT GROUP INC.	34,500	468,797	1,121,250
HELMERICH & PAYNE INC.	12,700	400,290	336,550	MANOR CARE INC.	15,000	167,800	376,875
HERCULES INC.	18,500	472,673	1,979,500	MARRIOTT INTERNATIONAL INC.	49,800	794,306	1,325,925
HERSHEY FOODS CORP.	42,900	576,246	1,860,786	MARSH & MCLENNAN CO.	33,200	2,472,495	2,768,050
HEWLETT-PACKARD CO.	203,700	11,807,323	15,328,425	MARTIN MARIETTA CORP.	45,400	868,938	2,003,275
HILTON HOTELS CORP	18,800	1,745,494	996,400	MASCO CORP.	272,700	6,766,984	7,499,250
HOME DEPOT INCORPORATED	201,200	3,919,291	8,475,550	MATTEL INC.	77,515	1,201,050	1,966,943
HOMESTAKE MINING	61,600	790,592	1,155,000	MAXUS ENERGY CORPORATION	69,900	565,862	340,763
HONEYWELL INC.	64,000	993,004	1,984,000	MAY DEPARTMENT STORES CO.	109,230	1,272,176	4,287,276
HOUSEHOLD INTERNATIONAL INC.	43,700	1,355,485	1,485,800	MAYTAG CORP.	48,100	993,478	889,850
HOUSTON INDUSTRIES INC.	58,200	1,957,985	1,898,775	MBNA CORPORATION	66,900	814,173	1,505,250
HUBBELL (HARVEY) -CL B	65,000	2,045,631	3,607,500	MCCAUG CELLULAR CLASS A	95,100	4,851,868	4,921,425
ILLINOIS TOOL WORKS	48,400	643,964	1,887,600	MCDERMOTT INTL. INC.	21,600	611,869	540,000
INCO LTD.	47,600	967,827	1,160,250	MCDONALD'S CORP.	516,800	6,459,925	14,922,600
INGERSOLL-RAND COMPANY	40,000	883,440	1,405,000	MCDONNELL DOUGLAS CORP.	18,200	1,474,617	2,129,400
INLAND STEEL INDUSTRIES INC.	14,700	425,608	512,663	MCGRAW-HILL INC.	21,600	1,162,590	1,436,400
INTEL CORPORATION	187,700	4,017,358	10,980,450	MCI COMMUNICATIONS CORP.	242,500	3,593,040	5,365,313
INTERGRAPH CORP.	21,500	416,993	209,625	MCKESSON CORP.	18,000	627,615	1,298,250
INTERPUBLIC GROUP COS., INC.	25,700	747,348	796,700	MEAD CORP.	28,400	614,556	1,253,150
INTL BUSINESS MACHINES CORP.	257,100	24,779,463	15,104,625	MEDTRONIC INC.	25,400	558,815	2,035,175
INTL FLAVORS & FRAGRANCES	54,300	981,623	2,124,488	MELLON BANK SECURITIES	28,100	1,510,101	1,580,625
INTL PAPER CO.	56,100	1,644,884	3,716,625	MELVILLE CORP.	192,300	6,712,512	7,451,625
ITT CORP.	52,500	2,036,840	4,285,313	MERCANTILE STORES CO. INC.	10,250	275,020	329,281
JAMES RIVER CORP.	35,800	1,007,321	608,600	MERCK & COMPANY, INC.	559,100	9,335,592	16,633,225
JEFFERSON-PILOT CORP.	107,000	3,586,670	5,216,250	MEREDITH CORP.	6,500	230,601	276,250
JOHNSON & JOHNSON	285,800	4,607,942	12,253,675	MERRILL LYNCH & CO. INC.	93,200	1,552,566	3,262,000
JOHNSON CONTROLS	118,400	4,754,774	5,727,600	MICROSOFT CORPORATION	249,500	13,504,610	12,880,438
JOSTENS INC.	18,600	529,374	299,925	MILLIPORE CORP.	12,000	405,648	633,000
K MART CORP.	186,500	2,747,891	2,890,750	MINNESOTA MINING & MFG CO.	268,200	8,297,756	13,309,425
KAUFMAN & BROAD HOME CORP.	12,300	211,523	164,513	MOBIL CORP.	177,600	7,430,076	14,474,400
KELLOGG CO.	101,500	1,586,976	5,519,063	MONSANTO CO.	53,300	1,243,351	4,030,813
KERR-MCGEE CORP	23,200	1,178,952	1,093,300	MOORE LTD.	42,500	884,228	717,186
KEYCORP	94,200	2,982,364	3,002,623	MORGAN (J.P.) & CO.	86,800	2,599,960	5,381,600
KIMBERLY-CLARK CORP.	72,300	1,052,203	3,822,863	MORRISON KNUDSEN CORP.	12,900	253,885	277,350
KING WORLD PRODUCTIONS, INC.	15,200	570,485	606,100	MORTON INTERNATIONAL INC.	21,600	889,761	1,684,800

INVESTMENT SECTION

INVESTMENT PORTFOLIO (CONTINUED)

STOCK PORTFOLIO (CONTINUED)

DESCRIPTION	SHARES	BOOK VALUE	MARKET VALUE	DESCRIPTION	SHARES	BOOK VALUE	MARKET VALUE
MOTOROLA INC.	247,200	\$ 1,940,348	\$11,031,300	PET INC.	47,600	\$ 732,456	\$ 886,550
NACCO INDUSTRIES -CL A	6,000	105,546	322,500	PFIZER INC.	140,100	3,384,335	8,843,813
NALCO CHEMICAL COMPANY	32,000	820,730	1,020,000	PHELPS DODGE CORPORATION	31,600	1,099,056	1,801,200
NATIONAL CITY CORP.	270,000	5,042,055	7,391,250	PHILIP MORRIS COS. INC.	499,800	17,003,794	25,739,700
NATIONAL EDUCATION CORP.	15,000	88,860	84,375	PHILLIPS PETROLEUM CO.	117,400	2,194,076	3,668,750
NATIONAL INTERGROUP INC.	9,300	114,716	162,750	PIONEER HI-BRED INT'L.	239,300	4,011,534	7,837,075
NATIONAL MEDICAL ENTERPRISE	76,700	1,098,543	1,198,438	PIONEER STANDARD ELECTRONICS	100,000	2,571,875	2,500,000
NATIONAL SEMICONDUCTOR CORP.	46,900	432,961	809,025	PITNEY-BOWES INC.	230,200	3,664,646	8,776,375
NATIONAL SERVICE INDUSTRIES	11,000	264,172	286,000	PITTSTON SERVICES GROUP	19,000	270,600	517,750
NATIONSBANK CORP.	122,140	5,382,436	6,274,943	PLACER DOME INC.	107,800	2,660,075	2,317,700
NAVISTAR INTERNATIONAL CORP.	31,400	880,807	419,975	PNC BANK CORPORATION	109,200	2,554,116	3,153,150
NBD BANCORP INC.	65,325	1,076,135	2,065,903	OPOLAROID CORP.	20,000	459,070	637,500
NEW YORK TIMES CO. -CL A	47,000	1,144,874	1,122,125	POTLATCH CORP.	14,600	409,507	562,100
NEWELL COMPANIES	239,600	9,161,669	11,081,500	PPG INDUSTRIES INC.	94,600	1,098,912	3,547,500
NEWMONT MINING CORP.	39,439	27,794	1,587,420	PRAXAIR, INC.	61,300	689,015	1,195,350
NIAGARA MOHAWK POWER	63,800	1,246,083	964,975	PREMARK INTERNATIONAL INC.	15,000	469,163	1,128,750
NICOR INC.	17,200	377,761	453,650	PRICE/COSTCO INC	96,995	2,015,692	1,448,863
NIKE, INC. -CL B	34,200	1,040,117	2,043,450	PROCTER & GAMBLE CO.	456,646	12,277,077	24,373,480
NORAM ENERGY CORP.	37,000	850,889	217,375	PROMUS COMPANIES INC.	45,300	754,047	1,342,013
NORDSTROM INC.	37,000	1,399,506	1,572,500	PROVIDIAN CORP.	48,200	582,651	1,458,050
NORFOLK SOUTHERN CORP.	61,700	1,354,612	3,887,100	PSI RESOURCES INC.	24,500	430,771	517,563
NORTHERN STATES POWER CO.	29,100	1,033,467	1,193,100	PUBLIC SERVICE ENTRPRISE	110,200	2,620,075	2,865,200
NORTHERN TELECOMM. LTD.	113,600	3,201,880	3,138,200	PULTE CORPORATION	17,400	278,798	400,200
NORTHROP GRUMMAN CORP.	21,400	932,309	794,475	QUAKER OATS CO.	30,000	1,232,883	2,092,500
NORWEST CORP.	126,100	1,443,750	3,294,363	QUESTAR CORP.	205,000	4,221,052	6,636,873
NOVELL INC.	140,900	3,857,085	2,360,075	RALSTON-RALSTON PURINA GROUP	45,600	914,453	1,590,300
NUCOR CORP	41,200	293,193	2,822,200	RAYCHEM CORP.	15,000	560,450	540,000
NYNEX CORP.	183,600	5,137,846	6,953,850	RAYTHEON CO.	60,300	1,407,131	3,904,425
OCCIDENTAL PETROLEUM CORP.	136,500	3,081,967	2,576,436	REEBOK INTERNATIONAL LTD.	136,700	3,675,721	4,083,915
OGDEN CORP.	19,200	443,184	422,400	REYNOLDS METALS CO.	26,900	1,474,841	1,291,200
OHIO EDISON CO.	68,500	1,364,355	1,224,438	RITE AID CORP.	39,700	501,352	803,925
ONEOK INC.	16,400	267,401	280,850	ROADWAY SERVICES INC.	103,100	5,877,508	6,495,300
ORACLE SYSTEMS	128,900	1,395,931	4,833,750	ROCKWELL INT'L. CORP.	98,300	1,916,652	3,673,963
ORYX ENERGY CO.	43,500	1,239,432	652,500	ROHM & HAAS CO.	32,500	702,273	2,023,125
OUTBOARD MARINE CORP.	10,200	229,052	204,000	ROLLINS ENVIRONMENTAL SERV.	28,200	332,196	137,475
OWENS CORNING FIBERGLAS	18,800	360,829	587,500	ROWAN COS. INC.	38,500	473,678	336,875
PACCAR INC.	18,400	683,200	851,000	ROYAL DUTCH PETROLEUM CO.	238,300	25,149,673	24,902,350
PACIFIC ENTERPRISES	35,700	1,159,060	709,536	RPM INC.	200,000	2,204,361	3,400,000
PACIFIC GAS & ELECTRIC	194,900	3,541,022	4,628,875	RUBBERMAID INC.	68,800	1,129,378	1,806,000
PACIFIC TELESIS GROUP	188,400	2,947,829	5,793,300	RUSSELL CORP	178,300	3,694,317	5,192,988
PACIFICORP.	117,200	2,410,776	1,977,750	RYAN'S FAMILY STEAK HOUSES INC.	10,400	97,500	75,400
PALL CORP	47,999	452,008	719,985	RYDER SYSTEM INC.	33,300	642,293	836,665
PANHANDLE EASTERN CORP.	44,800	1,018,129	884,800	SAFECO CORP	150,000	4,723,362	8,343,750
PARKER-HANNIFIN CORP.	18,900	479,020	805,613	SAFETY-KLEEN CORP.	21,000	400,945	357,000
PECO ENERGY COMPANY	100,300	2,383,193	2,632,875	SALOMON INC.	51,000	2,223,849	2,435,250
PENNEY (J.C.) CO.	103,200	1,427,606	5,598,600	SANTA FE ENERGY RESOURCES	46,370	701,474	434,719
PENNZOIL CO.	22,000	938,573	1,127,500	SANTA FE PACIFIC CORP.	84,685	1,006,037	1,746,626
PEOPLES ENERGY CORP.	16,500	279,913	385,688	SARA LEE CORP.	457,700	6,190,439	9,726,125
PEP BOYS - MANNY MOE & JACK	28,300	625,911	902,063	SCECORP	202,800	3,031,848	2,611,050
PEPSICO INC.	357,900	4,084,299	10,960,688	SCHERING-PLOUGH	86,600	1,869,060	5,304,250
PERKIN-ELMER CORP	19,500	476,956	575,250	SCHLUMBERGER LTD.	109,300	6,905,365	6,462,363

INVESTMENT PORTFOLIO (CONTINUED)

STOCK PORTFOLIO (CONTINUED)

DESCRIPTION	SHARES	BOOK VALUE	MARKET VALUE	DESCRIPTION	SHARES	BOOK VALUE	MARKET VALUE
SCHULMAN A INC.	156,250	\$ 3,568,684	\$ 4,042,969	TRIBUNE CO.	29,600	\$ 1,170,495	\$ 1,576,200
SCIENTIFIC-ATLANTA INC.	16,800	103,944	581,700	TRINOVA CORP.	12,700	275,019	439,738
SCOTT PAPER CO.	33,200	613,219	1,734,700	TRW INC.	29,400	1,300,135	1,896,300
SCOTTS COMPANY CL-A	150,000	2,526,769	2,475,000	TYCO INTERNATIONAL LTD.	19,000	992,154	871,625
SEAGRAM LTD.	165,400	4,741,033	5,003,350	U S WEST INC.	197,300	4,664,978	8,261,938
SEARS ROEBUCK & CO.	155,900	4,972,502	7,483,200	U.S. HEALTHCARE INC.	64,800	3,037,500	2,397,600
SERVICE CORP. INTERNATIONAL	35,500	716,073	914,125	U.S. SURGICAL CORP.	32,300	2,032,146	722,713
SHARED MEDICAL SYSTEMS CORP.	16,200	501,688	388,800	UAL CORP.	11,000	2,355,078	1,397,000
SHAWMUT NATIONAL CORP.	46,000	1,015,630	1,012,000	UNILEVER N V	71,800	8,237,753	7,233,850
SHERWIN-WILLIAMS CO.	42,400	398,899	1,335,600	UNION CAMP CORP.	25,500	802,051	1,157,063
SHONEYS INC.	24,000	268,060	366,000	UNION CARBIDE CORP.	70,200	807,680	1,860,300
SKYLINE CORP.	8,200	123,564	151,700	UNION ELECTRIC CO.	41,800	1,497,155	1,321,925
SMITHS FOOD & DRUG CTRS	100,000	2,088,000	1,887,500	UNION PACIFIC CORP.	91,100	2,226,461	5,158,535
SNAP-ON INC.	19,600	377,033	730,100	UNISYS CORP.	72,500	1,270,583	670,625
SONAT INC.	40,100	699,384	1,233,075	UNITED HEALTHCARE CORP.	65,100	2,988,416	2,937,635
SONOCO PRODUCTS CO.	170,000	2,556,887	3,485,000	UNITED TECHNOLOGIES CORP.	57,600	2,118,714	3,700,800
SOUTHERN CO.	288,900	3,390,724	5,416,875	UNOCAL CORP.	108,292	1,733,222	3,099,859
SOUTHWESTERN BELL CORP.	269,000	4,747,094	11,701,500	UNUM CORPORATION	26,700	1,528,709	1,194,825
SPRINGS INDUSTRIES -CL A	6,200	141,928	185,225	UPJOHN COMPANY	76,000	1,700,552	2,213,500
SPRINT CORPORATION	152,300	4,399,640	5,311,463	US BANCORP	42,900	836,701	1,110,035
SPX CORP.	7,500	202,091	116,250	USAIR GROUP	28,600	1,308,615	182,325
ST JUDE MEDICAL INCORPORATED	11,000	376,600	357,500	USF&G CORP.	38,300	856,646	469,175
ST PAUL COS.	40,400	710,281	1,621,050	USLIFE CORP.	11,500	317,659	408,250
STANHOME INC.	110,000	2,362,436	3,630,000	UST INC.	95,200	1,212,743	2,582,300
STANLEY WORKS	23,150	462,791	931,786	USX MARATHON GROUP	128,600	3,280,244	2,154,050
STONE CONTAINER	40,332	726,244	589,856	USX U.S. STEEL GROUP INC.	31,940	896,156	1,081,965
STRIDE RITE CORPORATION	23,000	421,920	299,000	VARITY CORP.	14,800	563,328	538,350
SUN CO. INC.	48,900	1,489,003	1,314,185	VF CORP.	31,771	610,570	1,509,123
SUN MICROSYSTEMS INC.	40,400	1,135,984	833,250	WACHOVIA CORP	78,500	3,000,584	2,600,313
SUNTRUST BANKS INC.	56,000	1,192,519	2,709,000	WAL-MART STORES	1,021,800	4,256,212	24,778,650
SUPER VALU INC.	25,900	502,667	783,475	WALGREEN CO.	55,600	719,443	2,022,450
SYSCO CORP.	81,500	1,118,915	1,843,938	WALLACE COMPUTER SERVICES	150,000	3,764,785	4,800,000
TANDEM COMPUTERS	40,000	503,152	450,000	WARNER-LAMBERT CO.	60,400	1,283,166	3,986,400
TANDY CORP	28,774	937,716	992,703	WASHINGTON POST COMPANY CL-B	28,400	6,513,714	6,567,500
TEKTRONIX INC	16,200	381,130	457,650	WELLS FARGO	24,500	1,880,812	3,684,188
TELE COMMUNICATIONS INC.	201,700	3,437,119	4,109,636	WENDY'S INTERNATIONAL INC.	46,224	637,446	722,250
TELEDYNE INC.	25,000	482,000	400,000	WESTERN ATLAS INC.	18,212	387,340	867,347
TEMPLE INLAND INC.	26,000	840,428	1,238,250	WESTINGHOUSE ELECTRIC CORP.	142,900	2,504,150	1,661,213
TENNECO INC.	73,709	3,044,429	3,418,255	WESTVACO CORP.	33,025	559,182	1,015,519
TEXACO INCORPORATED	116,300	7,275,085	7,021,613	WEYERHAEUSER CO.	94,100	2,284,747	3,764,000
TEXAS INSTRUMENTS INC.	42,000	1,466,885	3,339,000	WHIRLPOOL CORP	33,600	834,286	1,764,000
TEXAS UTILITIES CO.	102,300	3,390,806	3,196,875	WHITMAN CORPORATION	44,600	581,242	691,300
TEXTRON INC.	39,600	1,071,256	2,074,050	WILLIAMS COS. INC.	47,600	792,720	1,362,550
THOMAS & BETTS CORP.	9,600	363,711	590,400	WINN-DIXIE STORES INC.	34,300	918,546	1,474,900
TIME WARNER INC.	169,080	2,881,439	6,002,340	WMX TECHNOLOGIES INC	466,900	9,175,562	12,372,850
TIMES MIRROR CO.	59,400	1,490,740	1,789,425	WOOLWORTH CORP	62,000	1,922,665	984,250
TIMKEN CO.	8,400	179,457	275,100	WORTHINGTON INDUSTRIES	38,250	362,386	707,625
TJX COMPANIES INC.	33,000	762,791	721,875	WRIGLEY (WM.) JR. CO.	51,700	208,104	2,455,750
TORCHMARK CORP.	32,200	1,162,805	1,255,800	XEROX CORP	44,361	2,480,733	4,336,288
TOYS R US	133,700	3,706,771	4,378,675	YELLOW CORPORATION	12,600	382,778	218,925
TRANSAMERICA CORP.	34,700	1,226,406	1,808,735	ZENITH ELECTRONICS CORP.	15,000	307,930	131,250
TRAVELERS INC.	142,490	4,653,838	4,595,303	ZURN INDUSTRIES INC	7,000	118,876	141,750
TOTAL STOCK PORTFOLIO					45,319,265	\$1,146,731,377	\$1,742,160,649

INVESTMENT SECTION

INVESTMENT POLICY

A. Purpose.

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

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

B. Background.

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

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

C. Investment Philosophy.

1. Risk Posture.

The Board realizes that its primary objective is to

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

2. Return.

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

3. Diversification.

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

4. Liquidity Requirements.

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

D. Investment Objectives.

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

1. Performance Objectives.

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

- b. Preservation of Principal: To protect the System from severe depreciation in asset value during adverse market conditions. This objective shall be attained by broad diversification of assets and careful review of risks.
 - c. Competitive Results: To achieve investment results competitive with those of the broad market and of similar funds. Long-term results shall be emphasized.
2. Risk.
- a. Stability: While the Board seeks higher long-term investment results, it also seeks to avoid major fluctuations in year-to-year results.
 - b. Risk Level: The Board seeks to maintain a reasonable degree of total portfolio risk, defined as that which would be experienced by similar retirement systems.
3. Other Objectives.
- a. Ohio Investments: Where investment characteristics, including return, risk and liquidity, are equivalent, the Board will give careful consideration to investments which will have a positive impact on the economy of Ohio.

E. Implementation Approach.

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

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

in Section F.

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

F. Investment Organization and Responsibilities.

1. Responsibilities of the Retirement Board.

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

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

- a. Ensure that all fiduciaries comply with the Ohio Revised Code and any other applicable regulations and legislation.
- b. Establish investment policies, guidelines and objectives for the assets of the Plan and communicate them to the Investment Staff and Investment Managers.
- c. Appoint and discharge those with responsibility

for managing the Plan's assets, including Investment Managers, consultants and any others involved.

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

2. Responsibilities of the Investment Staff.

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

- a. Obtain necessary reports on the investment results of the Plan's assets on a timely basis as specified in Section G, Review and Evaluation.
- b. Retain any consultants or advisors deemed necessary or desirable for assistance in the investment of Plan assets, and for meeting his responsibilities.
- c. Oversee the investment function.

The Director of Investments shall accept the following responsibilities:

- a. Administer the policies, guidelines and objectives adopted by the Retirement Board of the School Employees Retirement System of Ohio in compliance with the relevant sections of the Ohio Revised Code.
- b. Inform and communicate to other Plan fiduciaries, including all Investment Managers, the requirements of the Ohio Revised Code and the policies, guidelines and objectives adopted by the Retirement Board, and monitor their compliance.
- c. Prepare annually an Annual Plan for the investment of the Plan's assets with recognition of the target asset mix ratios and the permissible ranges for asset allocation established by the Board.

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

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

- f. Oversee the activities of the Investment Staff.

3. Responsibilities of the Investment Managers.

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

- a. Manage the assets within its control in compliance with the relevant sections of the Ohio Revised Code and with the policies, guidelines and objectives adopted by the Retirement Board.
- b. Exercise investment discretion within the guidelines and objectives specified, including decisions to buy, hold or sell securities based on the manager's current investment strategy and outlook and compatible with such objectives.
- c. Inform the Retirement Board or the Investment Committee of any substantial changes in investment strategy, portfolio structure, value of assets, and of any organizational changes, including that of ownership, affiliation, organizational structure, financial condition, or changes in professional personnel staffing the investment management organization.

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

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

4. Criteria For Investment Managers.

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

- a. **Organizational Qualifications:** To be selected, the organization shall be qualified to serve as a fiduciary to the System, shall comply with all applicable nondiscrimination and affirmative action requirements, shall adequately address potential conflicts of interest and shall have a history of professionalism and ethical performance.
- b. **Investment Approach:** The approach utilized by the organization shall be compatible with the System's objectives and guidelines. It shall also be complementary to the System's other Investment Managers.
- c. **Personnel:** The organization shall have an experienced professional staff with adequate research and support personnel and a credible program or history demonstrating the ability to retain key personnel.
- d. **Performance:** The organization and/or its personnel shall have demonstrated the ability to achieve above average performance in implementing the investment approach for which it is being consid-

ered. Satisfactory client references shall also be available.

G. Review and Evaluation.

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

1. Quarterly.

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

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

2. Annually.

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

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

PLAN SUMMARY

Purpose

The School Employees Retirement System of Ohio was established in 1937 by the state legislature to provide retirement and disability benefits for all non-certificated persons employed by the state's 765 school districts. This purpose is sustained by the member and employer contributions and the income realized from investment of those contributions.

Administration

The functioning of SERS is supervised by a seven member Board which works in conjunction with the System's Executive Director. Four of the seven Board members are elected by the general membership (those who contribute to SERS) and one is elected by retirees. The Ohio Attorney General and State Auditor, by virtue of their elected office, serve as the remaining two Board members in an ex officio capacity.

The Executive Director is appointed by the Board. This person oversees the administrative operation of the System, and is aided by four directors. Their areas of responsibility are finance, investments, member services, and management information services.

Employer Participation

The school employers served by SERS include public schools within the state's cities, villages and counties, as well as local districts, vocational and technical schools, and The University of Akron.

Employers contribute to SERS at the rate of 14.0% of payroll. Some employers pay the System directly on a monthly, quarterly, or annual basis, while others make payments through participation in the Ohio Department of Education's School Foundation Fund.

In addition to forwarding appropriate contribution amounts to SERS, it is the responsibility of the employers to supply SERS with new membership records, members' contribution information, and any data needed at the time of a member's application for benefits or refund of deposits on termination of employment.

Employee Participation

Membership in SERS is divided into several groups based on the activity of a member's SERS account. Member groups are:

A. Active Members - These are persons currently

employed by a school employer. Membership is required for most employees working in a position that does not require certification by the Ohio Department of Education. These persons include clerical workers, maintenance personnel, bus drivers, food service workers, playground supervisors, data processing personnel, etc. Two exceptions to the membership requirements are: (1) persons with student status within a school district may choose to become members of SERS; and (2) temporary employees for emergency purposes. Active members have an amount equal to 9.0% of their earnings deducted from their gross salaries for each payroll period. These amounts are then forwarded to SERS by the payroll officer and applied to the member's account at SERS.

B. Inactive Members - These are persons who have contributions on deposit with SERS, but are not currently employed by a school district in the state of Ohio.

C. Retired/Disabled Members - These are persons who have either (1) met the age and service requirements for retirement from service; or (2) become eligible to receive benefits as a result of an injury or illness that prevents the member from performing regularly assigned duties.

D. Member's Survivors - When a member dies before retirement, the qualified beneficiaries become eligible for monthly benefits from SERS.

Refund of Contributions

A member is entitled to a full refund of contributions with SERS upon termination of school employment. Only the money the member has contributed is refundable.

In accordance with the Ohio Revised Code, there is a 90-day waiting period after the member's last day of service before the refund can be paid. A refund cancels any claim to benefits offered by SERS.

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

Service Retirement

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

1. Five years of service and age 60, or

2. Twenty-five years of service and age 55; or
3. Thirty years of service at any age.

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

Service Credit

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

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

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

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

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

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

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

Exempted Service - This is service during a period when the member was given a choice of contributing or refraining from doing so. The member must pay the entire cost, which is based on a percentage of current salary.

Leave of Absence - A member returning to work after a period of authorized leave may purchase service credit for the period involved. An employer contribution is required for this service to be granted, but the employer is under no obligation to make payment.

A member who has contributions not only at SERS, but also at State Teachers (STRS) or Public Employees (PERS) Retirement Systems is eligible to receive transferred credit from either or both of those systems. Any service which is not concurrent with (served at the same time as) SERS service will be included in determination of retirement benefits.

Early Retirement Credit

Employers may purchase up to five years of service credit for their eligible employees under an early retirement incentive plan authorized by 1983 legislation.

Adoption of a plan is optional and only employers may purchase up to five years of such credit.

Benefit Calculation

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

The benefit amount is calculated in this way:

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

For "early retirement" (the member is under age 65 or has less than 30 years of service) there is a corresponding percentage of decrease in the required benefit amount to allow for an extended period of retirement. Reduction factors are required by Ohio state law and set by the Board as recommended by the actuary.

PLAN SUMMARY

Retirement Options

Should the retiring member wish to provide a benefit amount for a beneficiary upon the retiree's death, this may be done by the selection of one of the optional retirement plans provided for this purpose. Optional plans may be altered by the retired member should the beneficiary die before the retiree or in the event of a divorce, with consent of the ex-spouse.

Disability Retirement

A member prevented from performing regular duties on the job after incurring an injury or illness may apply for monthly disability benefits. To qualify, the member must have at least 5 years of service credit. In addition to the age and service requirements, the member must:

- Have developed the disabling illness or injury after last becoming a member of SERS;
- Have been recommended for approval by a SERS-sponsored medical review board;
- Have applied for benefits within 2 years of the last day of service with the school district;
- Not have withdrawn contributions or retired on service retirement.

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

Death Benefits

The designated beneficiary of any SERS retirees will receive a \$500 lump sum payment upon the retiree's death. If there is no beneficiary, payment is made to the person responsible for the burial expenses or to the retiree's estate.

Survivor Benefits

Qualified dependents of a deceased member may apply for monthly survivor benefits. Such benefits are payable if the member had at least 18 months of Ohio service credit, three of which were served in the 2.5 years prior to the member's death, or if the member was receiving a disability benefit.

If the member was eligible for service retirement but had not yet applied for benefits, the surviving spouse or other

single dependent beneficiary of any age can draw a monthly lifetime benefit known as the joint survivor option. Duration of survivor benefits depends primarily on the age and marital status of the dependent(s).

Health Care and Other Benefits

Eligible benefit recipients receive medical insurance from SERS. Coverage for a spouse and/or dependent children can be provided by means of a monthly deduction from the benefit. Coverage is offered by the selection of the Aetna insurance company, for those persons in the Cleveland area, the Kaiser health plan, or for those in the central Ohio area, HealthFirst, Inc.

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

An optional prescription drug program is available to benefit recipients of SERS and their dependents who are covered under the Aetna plan. Participants may either choose to obtain prescription drugs from a participating local pharmacy and pay 20% of the cost or they may elect to receive the drugs by mail from a licensed mail order pharmacy for a minimal fee per medication.

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

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

Cost of Living Increases

After 12 months on the benefit rolls, and each year thereafter, SERS retirees are entitled to an automatic cost of living increase of 3%, provided the Consumer Price Index shows a 3% gain over the previous year. This increase will be paid each year by the Retirement System until the accumulated excess cost of living points fall below 3%. In addition, the legislature has granted several permanent ad hoc increases to SERS retirees, the last such increase being in 1988.

Re-Employed Retirees' Annuity

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