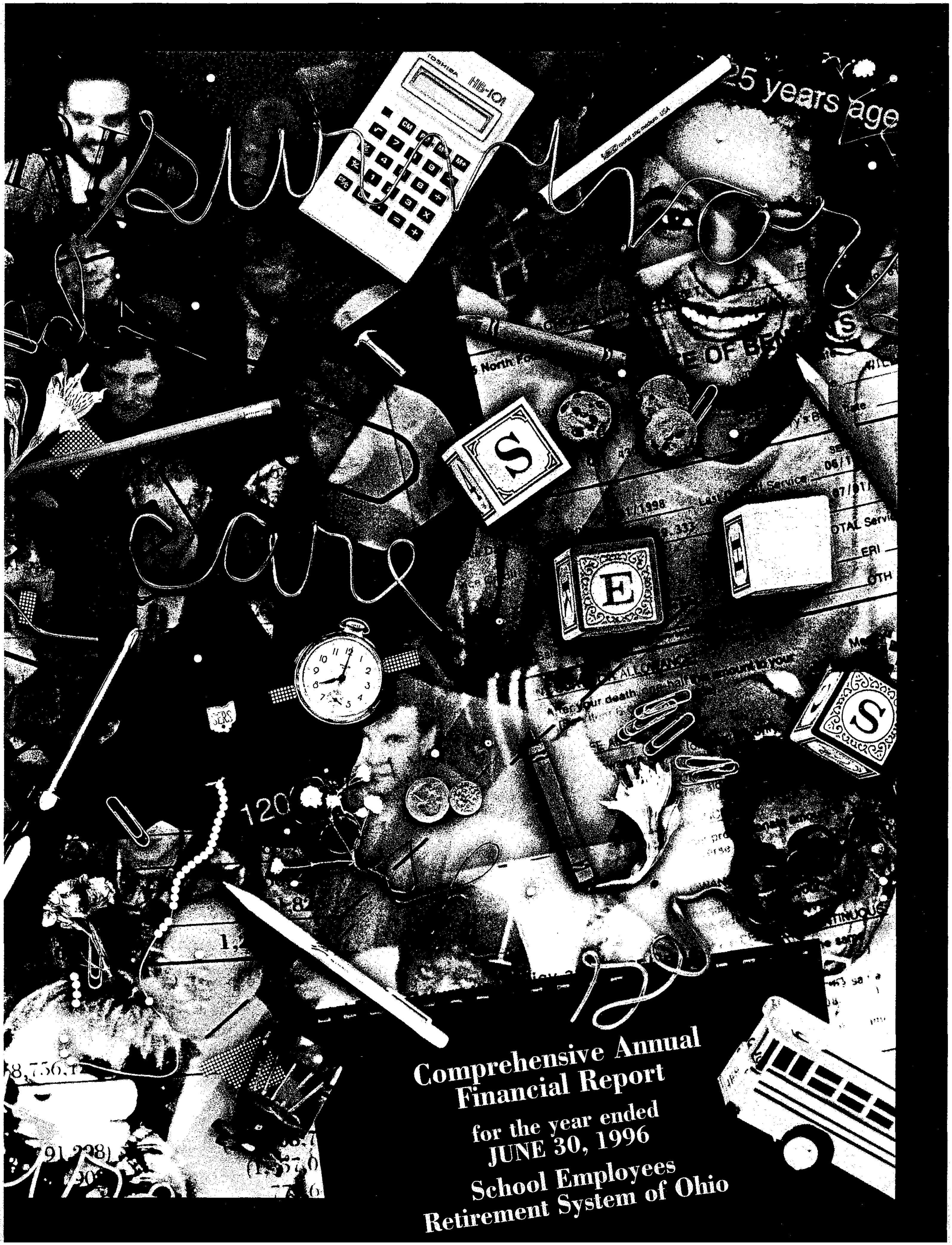
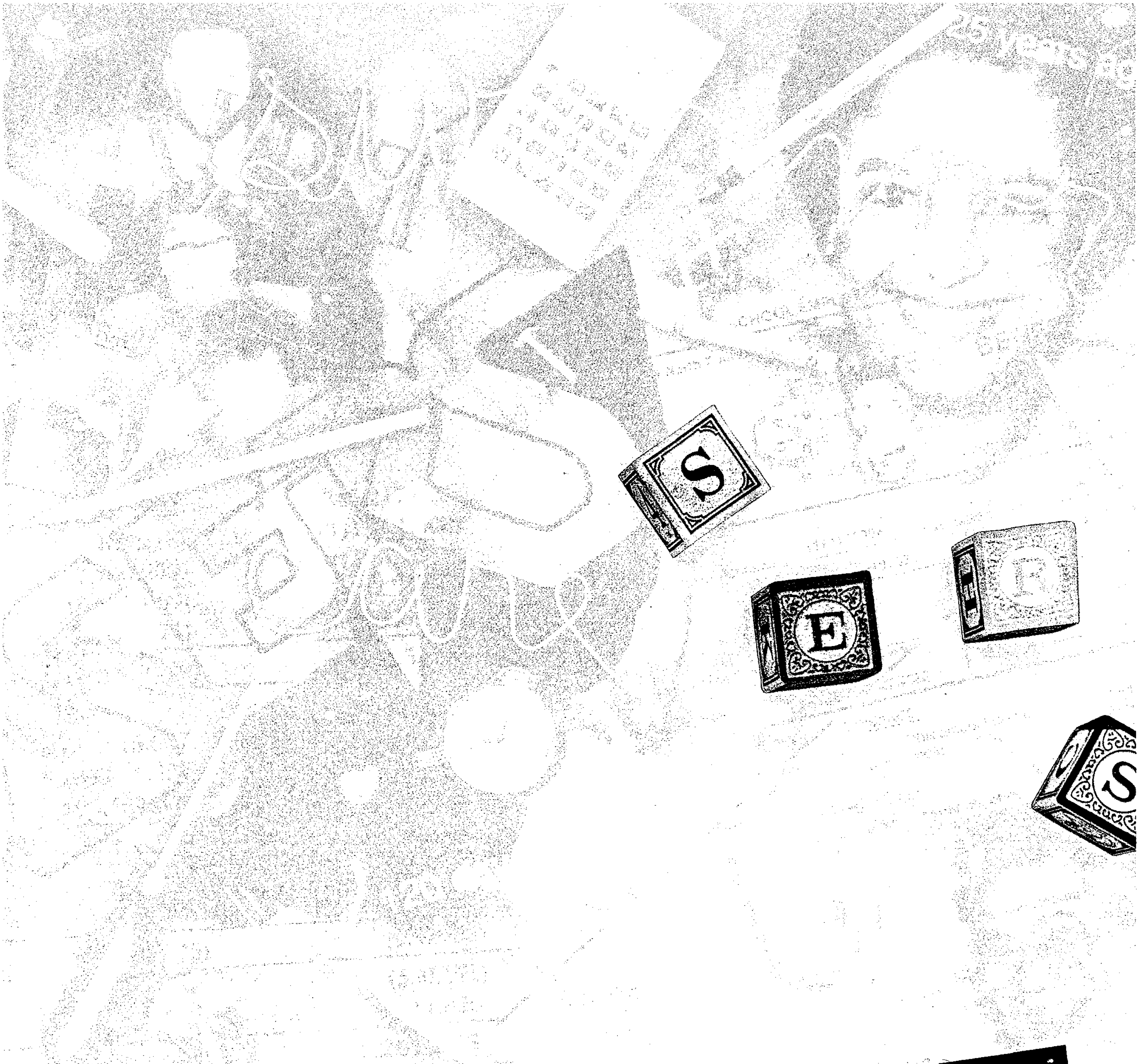


Comprehensive Annual Financial Report

for the year ended
JUNE 30, 1996

School Employees Retirement System of Ohio



Comprehensive Annual

Financial Report

for the year ended June 30, 1996

Prepared by SERS Staff

Thomas R. Anderson
Executive Director

Joel E. Sofranko
Director of Finance

The School Employees Retirement Board of Ohio

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

President: RuthAnna Spears, Kettering, Ohio
Term Expires June 30, 1996.

Vice-President: Daniel L. Wilson, Shaker Heights, Ohio
Term Expires June 30, 1996.

Employee-Member: Judy Kelley, Akron, Ohio
Term Expires June 30, 1997.

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

Employee-Member: Jeannie Knox, Cincinnati, Ohio
Term Expires June 30, 1999.

ExOfficio Member: Betty Montgomery
Attorney General

ExOfficio Member: Jim Petro
Auditor of State

Thomas R. Anderson
Executive Director

Directors

Robert E. Hartsook
Deputy Director / Member Services

Paul M. Kubinsky
Investments

Joel E. Sofranko
Finance

Teresa R. Woolley
Management Information Services

Organizational Chart

School Employees Retirement Board

Executive Director
Thomas R. Anderson

Deputy Director/ Director Member Services
Robert E. Hartsook

Director Investments
Paul M. Kubinsky

Director Finance
Joel E. Sofranko

Director Management Information Services
Teresa R. Woolley

Professional Consultants

Medical Advisor
Dr. Robert J. Atwell - Columbus, Ohio

Independent Accountants
Coopers & Lybrand L.L.P. - Columbus, Ohio

Actuaries
Gabriel, Roeder, Smith & Co. - Northport, New York

Investment Consultants
Frank Russell Company - Tacoma, Washington
The L&B Group - Dallas, Texas

Investment Managers
Brandywine Asset Management, Inc. - Wilmington, Delaware

Chancellor Capital Management, Inc. - New York, New York

Dodge & Cox Investment Managers - San Francisco, California

Investment Managers
Equinox Capital Management, Inc. - New York, New York

Gardner Lewis Asset Management - Chadds Ford, Pennsylvania

J.P. Morgan Investment Management Inc. - New York, New York

Lincoln Capital Management Company - Chicago, Illinois

MacKay Shields Financial Corporation - New York, New York

Sanford C. Bernstein & Co., Inc. - New York, New York

Western Asset Management Company - Pasadena, California

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, 1995

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

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

President

Executive Director

School Employees Retirement System

45 NORTH FOURTH STREET • COLUMBUS, OHIO 43215-3634 • TELEPHONE (614) 222-5853

December 16, 1996

Dear President and Members of the Retirement Board:

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, 1996. The report provides information about the financial operations of the System, including management's stewardship of the funds entrusted to the System and compliance with all legal requirements placed on the System. The management of SERS has responsibility for the accuracy of the contents and the completeness and fairness of the presentation. 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 report is divided into six sections:

- the 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;
- the 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;
- the Actuarial Section which contains a letter expressing the opinion of our consulting actuaries, Gabriel, Roeder, Smith & Company and results of their annual actuarial valuation;
- the Statistical Section which includes significant data pertaining to the System;
- the Investment Section which includes the investment report and schedules of portfolio activity for the past year; and
- the 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 66.

Economic Environment

Last year we commented on the banner year for the stock market, one in which the Dow Jones Industrial Average (DJIA) topped 4000 and marked a 25 percent increase from the beginning to the end of our fiscal year. Fiscal 1996 saw an almost identical performance of the DJIA. In November 1995 it topped 5000, just nine months after closing above 4000. Over our fiscal year, the DJIA increased by 24%, the broader S&P 500 Index grew by 23%. Stock market analysts cite a combination of moderate economic growth, low inflation, steady job growth and falling interest rates for this continuing bull market. The strong performance of stocks has provided SERS' portfolio with an excellent rate of return for 1996. The portfolio returned 16.8% and 16.6% for the years ending June 30, 1996 and 1995, respectively, outperforming its total portfolio benchmark.

Major Initiatives

During the fiscal year, we hired four active fixed income managers and six active equity managers. Two money managers were hired this summer to actively manage a portion of SERS' international equity portfolio. These eight managers will oversee approximately 40% of our equity portfolio, the balance will continue to be managed passively. We also will survey Ohio-based money managers to determine if there are any who would complement the performance of SERS' existing managers. Recommendations on hiring will be presented to the Board in the second quarter.

We selected four HMO's to add to our health care program, providing retirees in the most populated areas of the state with one or more alternatives to their current plan, effective January 1, 1997. Meetings were held around the state in October to explain the program of each provider. Because of the positive response we received, we extended the open enrollment period from four to six weeks. Although the HMO's are currently available in 27 of Ohio's 88 counties, we anticipate some will expand their coverage area in the months to come. We also will continue to seek expansion of the program by adding more HMO's for the next open enrollment in October 1997.

The quinquennial actuarial review was completed this year for the period ending June 30, 1995. Several changes were made to actuarial assumptions, the most significant being the increase in the investment rate of return from 7.75 percent to 8.25 percent. These changes in the actuarial assumptions are effective for the year ended June 30, 1997.

The investment staff, Board and our investment consultant, Frank Russell Co., will evaluate our asset allocation during fiscal year 1997. If revision of asset class targets are necessary, we will make those changes in the second half of the fiscal year.

First introduced in 1995, Senate Bill (S.B.) 82 includes legislation covering all five of Ohio's public retirement systems. It replaces the "legal list" of investment securities with a "prudent person" standard that allows SERS greater flexibility in choosing investments while emphasizing the joint aims of protecting principal and maximizing income. S.B. 82 also requires the systems to maintain an amortization period for unfunded pension liabilities of not longer than thirty years and to provide an actuarial report annually to the General Assembly. SERS supported this bill, which was passed by the General Assembly in November 1996.

During the past year, the activities of SERS, as one of the five statewide retirement systems, were reviewed by the Joint Legislative Committee to Study Ohio's Public Retirement Plans. SERS was pleased to have had the opportunity to participate in this legislative review and to provide information regarding SERS' activities, policies and procedures.

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, 1995. 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 government 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 eleven consecutive years (fiscal years ended 1985-1995). We believe our current report continues to conform to the Certificate of Achievement Program requirements, and we are submitting it to GFOA.

SERS received the Public Pension Principles Achievement Award from the Public Pension Coordinating Council for 1996. 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 two years.

Investments

SERS invests accumulated funds to maximize both current income yield and long-term appreciation. 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 maximize total return on assets while operating within prudent parameters of risk, to protect principal from severe depreciation during adverse market conditions and to achieve investment results competitive with those of the broad market. Details of portfolio composition, rates of return and information concerning our investment policy and operations are provided on pages 44 through 65 of this report.

The market value of the investments of the System was $5,323 million at June 30, 1996, an increase of $792 million from the previous year. For the last ten years, SERS has experienced an average annualized return of 10.0%. At June 30, 1996, the carrying value of our investment portfolio was structured as follows: 31.0% in debt securities; 49.4% in equity securities; 13.4% in short-term investments; and 6.2% in real estate.

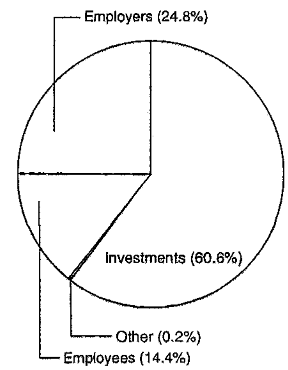
Financial Highlights

The financing of retirement and health care benefits is derived from employee and employer contributions and through investment earnings. Revenues from employee and employer contributions were $138.2 million and $238.6 million, respectively, while income from investments totaled $581.6 million. In 1995, we realized a net gain of $578.6 million when the equity portfolio was converted to passively managed commingled equity funds; thus 1996 investment income was less than the previous year. The employee and employer contribution rates during fiscal 1996 remained unchanged from the prior year at 9% and 14%, respectively.

Operating Revenue
(Expressed in Millions)

	1996	1995	Increase Amount	Increase Percentage
Member Contributions	$138.2	$133.9	$4.3	3.2%
Employer Contributions	238.6	227.7	10.9	4.8
Investment Earnings	581.6	786.0	(204.4)	(26.0)
Other	2.2	2.7	(.5)	(18.5)
Total	$960.6	$1,150.3	$(189.7)	(16.5)%

1996 Revenue

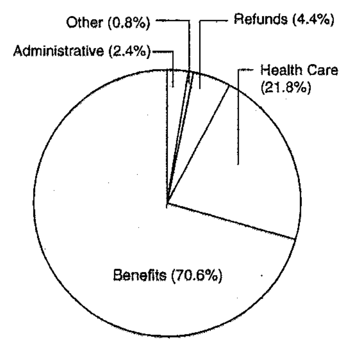


Expenses are incurred primarily for the purpose for which SERS was created, the payment of benefits. Included in the total expenses for fiscal 1996 were benefit payments, refunds of contributions due to member terminations or deaths, transfers of contributions to other Ohio Systems to provide benefits for those members who had membership in more than one system, and administrative expenses and benefits. Health care expense increased 2.1% versus last year's increase of 3.3%. While claims paid by our primary carrier fell, they were offset by the rise in payments to our mail order prescription provider. The increase in retirement payments resulted from the growth in the number of new benefit recipients and their higher base pensions.

Operating Expenses
(Expressed in Millions)

	1996	1995	Increase Amount	Increase Percentage
Retirement Payments	$291.3	$272.7	$18.6	6.8%
Health Care Payments	90.2	88.3	1.9	2.1
Refunds	18.2	17.7	.5	2.8
Administrative Expenses	9.9	9.9	0.0	0.0
Other	3.5	2.9	.6	2.1
Total	$413.1	$391.5	$21.6	5.5%

1996 Expenses



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 1996 resulted in an increase in the fund balance of $547.5 million.

The actuarial valuation for funding purposes, dated June 30, 1996, reflects an unfunded accrued liability for pension benefits of $1,351 million. This liability represents the difference between the computed actuarial accrued liability to be paid members and retirees and total valuation assets for basic benefits. As depicted in the accompanying chart, we have reduced our funding period significantly and increased our ratio of assets to accrued actuarial liabilities. This is the result of the Board's focus on sound financing principles, prudent investments and firm control of costs. At June 30, 1996 and 1995, the pension benefit obligation, a standardized disclosure measure of the actuarial present value of credited projected benefits, was $5,822 million and $5,755 million, respectively.

Fiscal Year	Funding Period (in years)	Ratio of Assets to AAL
1992	40	71%
1993	40	73%
1994	40	73%
1995	35	74%
1996	34	78%

The employer contribution rate of 14% is allocated by Board policy to cover the normal cost and amortization of the unfunded actuarial accrued liabilities for basic pension benefits; the remainder goes toward the funding of post-retirement health care benefits. To provide additional funding for health care benefits, employers pay a surcharge for members whose salary is less than a minimum amount. In 1995, the Board adopted pay-as-you-go funding of health care benefits and designated a minimum reserve for health care expenses to be maintained at 125% of annual health care expenses. At June 30, 1996 the health care reserve stands at 151% of the $90.2 million recorded in health care expenses for the fiscal year.

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

Acknowledgements

The preparation of this report is the combined effort of the System's staff under the direction of the Retirement Board. It will be mailed to all employer members of SERS and other interested parties. Summary financial information will be distributed to active and retired SERS membership.

The cooperation of SERS' employers contributes significantly to the success of SERS and is greatly appreciated. We would also like to express our gratitude to the Board, the staff, consultants and others who help ensure the successful operation of the School Employees Retirement System.

Respectfully submitted,

Thomas R. Anderson
Executive Director

Joel E. Sofranko, CPA
Director of Finance

State Legislation

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

H. B. 123 (Effective 6/5/96)

This legislation allows certain spouses of deceased members of SERS, PERS and STRS to continue to receive survivor benefits despite remarriage if the remarriage occurs after age fifty-five. Under prior law, survivor benefits terminated if the spouse remarried prior to age sixty-two.

H. B. 365 (Effective 9/27/96)

This legislation changed the cost of living adjustment (COLA) calculation. Under prior law, a 3% COLA was granted in those years when the increase in the CPI (plus the retiree's banked points) equaled or exceeded 3%. Under the new law, a COLA equal to any increase in the CPI for the year (plus the retiree's banked points) not to exceed 3% is granted each year.

H. B. 450 (Effective 10/29/96)

This legislation conformed SERS' military service credit statutes to the requirements of the Uniformed Services Employment and Reemployment Rights Act of 1994 (USERRA). The legislation also changed the calculation of interest charged on purchase of military service credit for non-interrupted public service.

H. B. 668 (Effective 12/6/96)

This legislation provides that where a member of SERS is convicted of a sexual offense committed in the context of employment, the court may order restitution and the restitution may be paid from the individual's retirement system benefits upon the court issuing a withholding order.

S.B. 82 (Effective 3/6/97)

This legislation replaces SERS' "legal list" investment authority with a "prudent person" standard of authority. The legislation also requires SERS to attain and maintain a 30-year amortization period for unfunded accrued pension liabilities and to provide an annual actuarial report to the General Assembly.

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

H. B. 586

This legislation establishes an alternative retirement program for the purpose of providing academic/administrative employees of public institutions of higher education two or more retirement plans as an alternative to participating in a state retirement system. Under the proposed legislation, an employee of a public institution of higher education may, not later than 90 days after the date of employment or 120 days after commencement of the alternative retirement program, make an irrevocable election to participate in an alternative retirement plan offered by the public institution of higher education. Each public institution of higher education who employs an electing employee shall contribute to the applicable state retirement system, on behalf of the employee, an amount equal to 6% of the employee's compensation to lessen any negative financial impact caused by the alternative retirement plan upon the state retirement system. As of December 11, 1996, this legislation had passed the General Assembly and was awaiting signature by the Governor.

S.B. 101

This legislation would allow school districts to "privatize" or enter into a contract with a private entity to operate the school district and hire all employees. Membership of the employees in SERS and STRS would be optional. The legislation is pending in the Senate Education and Retirement Committee and is unlikely to pass this term.

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:

Public Employee Pension Liability Act of 1995

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

Social Security: Offset

H.R. 2167. This legislation, introduced on August 2, 1995 by Congressman Jefferson, would change the formula for calculation of the Offset. The legislation provides that the reduction in Social Security benefits that is required in the case of spouses and surviving spouses who are also receiving certain government pensions shall be equal to the amount by which the total amount of the combined monthly benefits before reduction exceed $1,200. Where combined SERS and Social Security benefits are $1,200 or less, there would be no reduction in the retirant's Social Security benefit. The bill has been referred to the House Ways & Means Committee.

Taxation: Section 415

H.R. 3448 (Effective 8/20/96). This legislation amends Section 415 of the Internal Revenue Code to lessen its impact on public retirement systems. The legislation enacts a uniform definition of "compensation", exempts governmental plan benefits from the 100% of compensation limitation, authorizes governmental plans to establish excess plans and provides that governmental plan disability retirement and survivor benefits are not subject to Section 415.

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, 1996 and 1995, and the related statements of revenues, expenses and changes in fund balances and cash flows for the years then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such financial statements present fairly, in all material respects, the financial position of School Employees Retirement System of Ohio as of June 30, 1996 and 1995, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards,* we have also issued a report dated December 6, 1996 on our consideration of the System's internal control structure and a report dated December 6, 1996 on its compliance with laws and regulations.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The financial section schedules listed in the table of contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements. Such schedules as of and for the years ended June 30, 1993 through 1996 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 years ended June 30, 1987 through 1992 were reported upon by other auditors, whose reports stated that the schedules were fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Coopers & Lybrand L.L.P.

Columbus, Ohio
December 6, 1996

Balance Sheets
June 30, 1996 and 1995

	1996	1995
Assets:		
Cash (note 5)	$ -	$ 982,697
Receivables:		
Contributions:		
Employers (note 4)	129,392,418	125,997,671
Employees (note 4)	11,416,293	13,375,258
State of Ohio subsidies	484,005	558,295
Accrued investment income	27,700,641	20,830,188
Investment sale proceeds	37,927,349	6,790,273
Total receivables	206,920,706	167,551,685
Investments, at cost (market $5,323,379,617 and $4,531,257,072, respectively) (note 5)	4,783,875,939	4,169,809,429
Property and equipment, at cost (note 6)	14,136,577	12,560,838
Less accumulated depreciation	8,326,172	7,401,631
Net property and equipment	5,810,405	5,159,207
Other assets (note 7)	2,278,832	11,792,304
Total assets	4,998,885,882	4,355,295,322
Liabilities:		
Accounts payable and accrued expenses (note 9)	2,113,632	1,226,352
Investment commitments payable	97,887,060	244,504
Health care benefits incurred and unpaid	14,661,589	17,377,136
Other liabilities (note 7)	2,049,697	1,751,231
Total liabilities	116,711,978	20,599,223
Net assets available for benefits	**$ 4,882,173,904**	**$ 4,334,696,099**
Fund balance (note 3):		
Pension benefit obligation:		
Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	$ 2,928,610,118	$ 2,831,057,704
Current employees:		
Accumulated employee contributions, including allocated investment income	1,105,310,501	1,034,417,049
Employer financed portion	1,788,270,062	1,889,130,193
Total pension benefit obligation	5,822,190,681	5,754,604,946
Unfunded pension benefit obligation payable	(1,075,821,088)	(1,558,118,841)
Health care reserve	135,804,311	138,209,994
Total fund balance	**$ 4,882,173,904**	**$ 4,334,696,099**

See accompanying notes to financial statements.

Statements of Revenues, Expenses and Changes in Fund Balance
Years ended June 30, 1996 and 1995

	1996	1995
Revenues:		
Contributions:		
Employers (note 4)	$ 238,552,082	$ 227,703,212
Employees (note 4)	138,251,468	133,907,577
State of Ohio subsidies	484,148	558,865
Transfers from other Ohio systems	1,717,139	2,104,026
	379,004,837	364,273,680
Investment income:		
Interest and dividends	157,688,701	171,873,344
Real estate income, net	20,216,740	16,304,595
Net gain on sale of investments	403,697,289	597,813,359
	581,602,730	785,991,298
Total revenues	960,607,567	1,150,264,978
Expenses:		
Benefits:		
Retirement	241,967,864	226,834,067
Disability	34,235,981	31,129,681
Survivor	14,268,272	13,854,968
Health care	90,212,211	88,340,780
Death	836,775	890,783
	381,521,103	361,050,279
Refund of employee contributions	18,218,091	17,730,959
Administrative expenses	9,948,711	9,869,845
Transfers to other Ohio systems	3,441,857	2,857,771
Total expenses	413,129,762	391,508,854
Net income	547,477,805	758,756,124
Fund balance, beginning of year	4,334,696,099	3,575,939,975
Fund balance, end of year	**$ 4,882,173,904**	**$ 4,334,696,099**

See accompanying notes to financial statements.

Statements of Cash Flows
Years ended June 30, 1996 and 1995

	1996	1995
Cash flows from operating activities:		
Contributions received	$ 377,643,345	$ 353,791,772
Benefits paid	(374,359,655)	(372,286,013)
Refunds of employee contributions	(18,218,091)	(17,730,959)
Administrative expenses paid	(8,085,140)	(9,038,074)
Transfers to other Ohio systems	(3,441,857)	(2,857,771)
Net cash used in operating activities	(26,461,398)	(48,121,045)
Cash flows from investing activities:		
Proceeds from investments sold	16,776,031,313	6,137,415,637
Purchase of investments	(16,919,191,839)	(6,289,016,327)
Investment income, net of investment expenses	170,331,773	199,759,652
Net cash provided by investing activities	27,171,247	48,158,962
Cash flows from capital and related financing activities:		
Additions to property and equipment	(1,692,546)	(316,875)
Net cash used for capital and financing activities	(1,692,546)	(316,875)
Net decrease in cash	(982,697)	(278,958)
Cash at beginning of year	982,697	1,261,655
Cash at end of year	**$ 0**	**$ 982,697**
Reconciliation of operating income to net cash used in operating activities:		
Net income	$ 547,477,805	$ 758,756,124
Adjustments to reconcile operating income to net cash provided by operating activities:		
Investment income, net of investment expenses	(581,602,728)	(785,991,298)
Increase in contributions receivable	(1,361,493)	(10,481,908)
Depreciation (non-investment)	1,041,347	738,406
Decrease (increase) in other assets	9,513,472	(10,179,092)
Increase in accounts payable and accrued expenses	887,280	135,077
Decrease in health care benefits incurred and unpaid	(2,715,547)	(1,358,781)
Increase in other liabilities	298,466	260,427
Total adjustments	(573,939,203)	(806,877,169)
Net cash used in operating activities	**$ (26,461,398)**	**$ (48,121,045)**

See accompanying notes to financial statements.

Notes To Financial Statements
June 30, 1996 and 1995

1. *Description of the System*

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

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

Employer and employee membership data as of June 30 follows:

Employer Members	1996	1995
Local	371	371
City	193	193
County	76	83
Village	49	49
Vocational	49	49
Technical	13	13
College	2	2
Other	4	6
Total	757	766

Employee Members	1996	1995
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	60,206	58,838

Current Employees	1996	1995
Vested	62,797	62,763
Non-vested	38,980	38,021
Total	101,777	100,784

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.

Notes To Financial Statements (Continued)

Members who retire effective July 1, 1986 or later must have at least ten or more years of service credit to qualify for the health care benefits. Effective August 1, 1989, 1) members retiring with more than 10 but less than 25 years of service credit were required to pay from 25% to 75% of the health insurance premium and 2) the SERS portion of spouse and dependent health insurance premiums was reduced from 50% to 30%.

2. Summary of Significant Accounting Policies

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

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

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

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

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

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

Investments in short-term obligations, principally corporate commercial paper, U.S. Government agencies and repurchase agreements, are carried at amortized cost, which approximates market value.

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

Office Building, Equipment and Fixtures (Non-Investment Assets) - Office building, equipment and fixtures are capitalized at cost when acquired. Improvements which increase the useful life of the property are capitalized. Maintenance and repairs are charged to expense as incurred. Depreciation has been provided using the straight-line method over the following useful lives:

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

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

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

3. Funding Status and Progress

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

The pension benefit obligation was determined as part of an actuarial valuation of the plan as of June 30, 1996 and 1995.

Notes To Financial Statements (Continued)

As a result of the five-year study of actuarial assumptions, changes were made for the actuarial valuation as of June 30, 1996. The following significant assumptions were used in the actuarial valuations as of June 30, 1996 and 1995:

	1996	1995
Rate of return on investments	8.25% compounded annually (net of administrative expenses).	7.75% compounded annually (net of administrative expenses).
Projected salary increases	4.25% compounded annually, attributable to inflation; additional increases ranging from 1% to 5% per year attributable to seniority and merit.	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.	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.	Developed on basis of actual plan experience.

At June 30, 1996 and 1995 the unfunded pension benefit obligation for basic retirement benefits was $ 1,075,821,088 and $ 1,558,118,841 as follows:

	1996	1995
Pension benefit obligation:		
Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	$ 2,928,610,118	$ 2,831,057,704
Current employees:		
Accumulated employee contributions including allocated investment income	1,105,310,501	1,034,417,049
Employer financed - vested	1,665,568,580	1,713,890,455
Employer financed - non-vested	122,701,482	175,239,738
Total pension benefit obligation	5,822,190,681	5,754,604,946
Net assets available for benefits, at cost (market $5,285,873,271 and $4,557,933,748, respectively) excluding health care reserve	4,746,369,593	4,196,486,105
Unfunded pension benefit obligation	**$ 1,075,821,088**	**$ 1,558,118,841**

During the year ended June 30, 1996 the plan experienced a net increase of $67,585,735 in the basic benefits pension benefit obligation. Of that change, $0 was attributable to amendments and $(271,514,937) was attributable to changes in assumptions.

Notes To Financial Statements (Continued)

4. Contributions

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

The current employer contribution rate is allocated to basic retirement benefits and health care by the Retirement Board. For fiscal year 1996, 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 34-year period. The employer contribution rate (14%) is allocated 10.5% to basic benefits and the remaining 3.5% is allocated to health care benefits. Significant actuarial assumptions used to determine the adequacy of contribution rates were the same as those used to compute the standardized measure of the pension benefit obligation.

During fiscal year 1995, the Retirement Board decided to discontinue advance-funding of health care benefits on an actuarially-determined basis. Starting with fiscal year 1995, the Board adopted pay-as-you-go funding of health care by targeting a reserve for health care benefits equal to 125 percent of annual health care expenses. Thus the target level for 1996 is $112.8 million, but the actual balance is $135.8 million as follows:

July 1, 1995 balance	$ 138.2
Additions	87.8
Reductions	(90.2)
June 30, 1996 balance	$ 135.8

Employer and employee contributions required and made represented 14% and 9%, respectively, of active member payroll and amounted to $210.8 million and $135.5 million, respectively, in 1996. For basic benefits, the employer contributions consisted of $80.2 million for normal cost and $81.4 million for amortization of the unfunded actuarial accrued liability. Employee contributions are applied to normal cost.

The health care surcharge on employers is collected for employees earning less than an actuarially-determined minimum pay, pro-rated according to service credit earned. For fiscal years 1996 and 1995, the minimum has been established as $11,800 and $11,200, respectively. The surcharge accrued for fiscal years 1996 and 1995 and included in contribution revenue from employers in the Statements of Revenues, Expenses and Changes in Fund Balance is $23.0 million and $21.8 million, respectively.

5. Cash Deposits and Investments

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

As of June 30, 1996, the carrying amount of SERS' deposits was $0 and the bank balance was $1,352,454. Of the bank balance, $100,000 was insured by the Federal Deposit Insurance Corporation. The remaining bank balance was uncollateralized. The carrying amount of deposits is separately displayed on the balance sheet as "Cash".

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

Notes To Financial Statements (Continued)

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

In accordance with Statement No. 3 of the Governmental Accounting Standards Board, SERS' investments are categorized to give an indication of the level of risk assumed by SERS at year-end. Category 1 includes investments that are insured or registered, with securities held by the Treasurer or custodial agent bank in SERS' name. Category 2 includes uninsured and unregistered investments, with securities held by the counterparty's trust department or agent in SERS' name. Category 3 includes uninsured and unregistered investments, with securities held by the counterparty, or by its trust department or agent, but not in SERS' name.

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

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

	Category 1	Category 2	Category 3	Carrying Value	Market Value
U.S. government obligations and U.S. government agency obligations	$ 1,063,480,474			$ 1,063,480,474	$ 1,056,856,999
Corporate bonds & notes	362,965,874			362,965,874	357,101,665
Canadian bonds	32,312,816			32,312,816	31,840,667
Common & preferred stock	527,665,738			527,665,738	525,919,937
Commercial paper	515,940,003			515,940,003	515,940,003
Repurchase agreement	56,539,000			56,539,000	56,539,000
FHLMC discount notes	36,936,517			36,936,517	36,936,517
FFCB discount notes	23,720,000			23,720,000	23,720,000
FNMA discount notes	7,787,369			7,787,369	7,787,369
Total	$ 2,627,347,791	$ 0	$ 0	2,627,347,791	2,612,642,157
Real estate				297,717,414	298,243,571
Domestic stock commingled funds				1,391,084,881	1,859,336,911
International stock commingled funds				402,497,550	487,928,675
Venture capital				39,114,711	39,114,711
Direct mortgage loan				26,113,592	26,113,592
Total				**$ 4,783,875,939**	**$ 5,323,379,617**

Notes To Financial Statements (Continued)

Foreign Currency Contracts - Forward currency contracts are legal agreements between two parties to purchase and sell a foreign currency, for a price specified at the contract date, with delivery and settlement in the future. SERS enters into foreign currency contracts to hedge the foreign currency movements of assets held in the MSCI-EAFE fund. The System hedges 50% of the value of its assets in the MSCI-EAFE fund to minimize the volatility of the underlying currency movements. As of June 30, 1996, SERS had outstanding contracts in the amount of $226,258,810 which had a maturity date of October 1, 1996 and net gains on rejoined contracts of $32,215,825 for the year. The System is exposed to credit loss in the event of non-performance by the other party to the contracts, however, the System does not anticipate non-performance by the counterparty.

Derivatives - The Ohio Revised Code authorizes SERS to invest in various types of instruments. The System has investments in mortgage-backed, asset-backed, interest-only strips, principal-only strips and adjustable-rate securities at year-end. These securities serve to maximize yields and to offset volatility in the Fund due to interest rate fluctuations. The System is exposed to market risk in the event of changing interest rates, security prices, and principal values of these individual securities. The System is also exposed to credit risk in the event that sufficient collateral is not maintained by the issuers of the asset-backed securities in case of default, however, SERS is not aware of any such instance. The market value of these securities totaled $664.8 million and $566.3 million at June 30, 1996 and 1995, respectively, representing 12.4% of the market value of all investments in each of these fiscal years.

6. Property and Equipment (Non-Investment Assets)

A summary of property and equipment at June 30 follows:

	1996	1995
Land	$ 1,178,055	$ 1,178,055
Building and improvements	4,268,349	4,161,499
Furniture and equipment	8,690,173	7,221,284
	14,136,577	12,560,838
Less accumulated depreciation	8,326,172	7,401,631
	$ 5,810,405	**$ 5,159,207**

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, 1996, the market value of investments in the Program totaled $2,049,697 and has been included in other assets. Under the terms of the Program agreement, these monies are subject to the claims of SERS' general creditors. Accordingly, this amount is reflected as an asset along with a corresponding liability to the employees participating in the Program. Participating employees are general creditors of SERS with no preferential claim to the deferred funds. Investments in the Program are held by the Program's agent in SERS' name.

8. Defined Benefit Pension Plan

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

Plan members are required to contribute 8.5% of earnable salary and employers are required to contribute at an actuarially determined rate. The current rate for miscellaneous employers is 13.55% of annual covered payroll. The contribution requirements for employees and employers are established and may be amended within statutory limits by the PERS Board. The payroll for employees covered by PERS for the year ended June 30, 1996 was $4,104,369; SERS' total payroll was $4,242,770. SERS' contributions to PERS for the years ending June 30, 1996, 1995 and 1994 were $556,142, $564,658 and $552,799, respectively, equal to the required contributions for each year.

Notes To Financial Statements (Continued)

In addition to pension benefits, PERS provides post-employment health care benefits, in accordance with state statutes, to all employees who retire with 10 or more years of qualifying Ohio service credit and to disability recipients. At December 31, 1995, the plan had approximately 365,000 active participants.

A portion of each employer's contribution to PERS is set aside for the advanced funding of post-employment health care. Of the 13.55% of employee payroll contributed by SERS to PERS, 5.11%, or approximately $210,000, 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, 1994 valuation (most recent available) were (a) investment rate of return of 7.75%, (b) investments valued at book value plus or minus realized or unrealized investment gains and losses amortized at 25% per annum over a four-year period. (c) no change in the number of active employees, (d) base pay rate increases of 5.25% and annual pay increases over and above the 5.25% base increase ranging from 0% to 5.1%, and (e) health care increases of 5.25% annually.

Net assets held in trust at December 31, 1995 for post-employment health care benefits were $7.2 billion. Unfunded actuarial accrual liabilities for local and miscellaneous employers are amortized over a period of 28 years for 1994 (the most recent valuation).

9. Compensated Absences

As of June 30, 1996 and 1995, $325,715 and $314,028, respectively, was accrued for unused vacation and sick leave for SERS' employees. Employees who retire or resign are entitled to full compensation for all earned unused vacation. Unused sick leave pay is forfeited upon termination. However, employees who retire, become disabled or deceased after five years of service are entitled to receive payment for a percentage of unused sick leave.

10. Contingent Liabilities

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

11. Historical Trend Information

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

12. Accounting Policies

The Governmental Accounting Standards Board (GASB) has issued Statement 25 *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans* and Statement 26 *Financial Reporting for Postemployment Healthcare Plans Administered by Defined Benefit Pension Plans.* The requirements for both statements are effective for periods beginning after June 15, 1996.

Schedule I
Analysis Of Funding Progress

GASB Statement No. 5 requires the presentation of ten years of comparative actuarial statistical data, disclosing the progress made in accumulating assets to pay benefits when due. (Dollar amounts are expressed in millions.)

Basic Retirement Benefits

Fiscal Year	(1) Net Assets Available for Benefits	(2) Pension Benefit Obligation	(3) Percentage Funded (1) divided by (2)	(4) Unfunded Pension Benefit Obligation (2) minus (1)	(5) Covered Payroll	(6) Unfunded Pension Benefit Obligation as a Percent of Covered Payroll (4) divided by (5)
1987	$1,930	$2,646	72.9%	$ 716	$ 931	76.9%
1988*	2,107	3,017	69.9	910	982	92.6
1989	2,311	3,346	69.1	1,035	1,055	98.1
1990	2,513	3,662	68.6	1,149	1,119	102.7
1991**	2,722	4,214	64.6	1,492	1,176	126.8
1992	2,930	4,546	64.5	1,616	1,244	129.9
1993	3,172	4,901	64.7	1,729	1,313	131.7
1994	3,453	5,217	66.2	1,764	1,361	129.6
1995	4,196	5,755	72.9	1,558	1,430	109.0
1996***	4,746	5,822	81.5	1,076	1,476	72.9

Health Care Benefits

Fiscal Year	(1) Net Assets Available for Benefits	(2) Pension Benefit Obligation	(3) Percentage Funded (1) divided by (2)	(4) Unfunded Pension Benefit Obligation (2) minus (1)	(5) Covered Payroll	(6) Unfunded Pension Benefit Obligation as a Percent of Covered Payroll (4) divided by (5)
1987	$ 133	$1,006	13.2%	$ 873	$ 931	93.8%
1988*	133	991	13.4	858	982	87.4
1989	144	1,065	13.5	921	1,055	87.3
1990	149	1,135	13.1	986	1,119	88.1
1991**	141	1,241	11.4	1,100	1,176	93.5
1992	136	1,436	9.5	1,300	1,244	104.5
1993	122	1,517	8.0	1,395	1,313	106.2
1994	123	1,541	8.0	1,418	1,361	104.2

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

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

*** Changes to actuarial assumptions for fiscal 1996 decreased the pension benefit obligation for basic benefits by $271.5 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 and post-retirement mortality 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
1987	$ 84,848,170	$ 135,032,693	$ 175,493,200	$ 2,521,825	$ 397,895,888	14.0%
1988	89,667,853	145,784,980	161,724,032	2,280,893	399,457,758	14.0
1989	96,422,050	171,094,710	193,830,887	2,448,403	463,796,050	14.0
1990	104,105,361	180,544,371	196,527,043	2,569,782	483,746,557	14.0
1991	109,310,197	188,465,132	201,820,479	1,981,749	501,577,557	14.0
1992	117,331,597	202,421,912	205,739,886	2,283,675	527,777,070	14.0
1993	123,270,559	210,429,351	243,539,163	2,363,874	579,602,947	14.0
1994	128,246,355	216,383,274	300,408,705	2,045,066	647,083,400	14.0
1995	133,907,577	227,703,212	785,991,298	2,662,891	1,150,264,978	14.0
1996	138,251,468	238,552,082	581,602,730	2,201,287	960,607,567	14.0

Expenses By Type

Fiscal Year	Benefits	Administrative Expenses	Transfers to other Ohio Retirement Systems	Refunds	Total
1987	$192,787,851	$ 6,599,526	$1,498,114	$10,267,756	$211,153,247
1988	204,178,239	6,689,009	2,131,150	9,791,762	222,790,160
1989	227,333,363	7,419,675	1,630,410	11,468,175	247,851,623
1990	255,285,627	7,942,036	1,983,908	12,532,925	277,744,496
1991	276,925,099	8,565,124	2,202,383	12,345,363	300,037,969
1992	302,422,078	8,586,487	1,741,637	12,751,491	325,501,693
1993	324,386,556	9,726,019	2,747,590	13,513,992	350,374,157
1994	339,173,588	10,037,313	2,665,192	13,908,639	365,784,732
1995	361,050,279	9,869,845	2,857,771	17,730,959	391,508,854
1996	381,521,103	9,948,711	3,441,857	18,218,091	413,129,762

See accompanying independent auditors' report.

Schedule III
Administrative Expenses
Years ended June 30, 1996 and 1995

	1996	1995
Personnel services:		
Salaries and wages	$ 4,242,770	$ 4,267,139
Retirement contributions	556,142	564,658
Insurance	447,112	508,061
Total personnel services	5,246,024	5,339,858
Professional services:		
Technical and actuarial	432,102	406,077
Medical	379,345	441,354
Auditing	35,842	39,440
Employee training	128,214	97,571
Total professional services	975,503	984,442
Communications:		
Postage	412,586	440,520
Printing and publications	254,852	141,231
Telephone	49,116	52,722
Retirement counseling services	16,968	7,329
Total communications	733,522	641,802
Other services and charges:		
Computer support services	796,639	1,198,153
Building occupancy and maintenance	398,559	306,177
Transportation and travel	191,253	185,541
Supplies	91,120	83,745
Equipment rental	114,289	114,137
Surety bonds and insurance	108,313	99,752
Memberships and subscriptions	57,125	56,493
Equipment repairs and maintenance	65,392	33,725
Retirement study commission	25,674	19,905
Miscellaneous	103,951	67,709
Total other services and charges	1,952,315	2,165,337
	8,907,364	9,131,439
Depreciation (non-investment):		
Furniture and equipment	929,175	634,473
Building	112,172	103,933
Total depreciation	1,041,347	738,406
Total administrative expenses	**$ 9,948,711**	**$ 9,869,845**

See accompanying independent auditors' report.

Schedule IV
Investment Summary

Year ended June 30, 1996

	1995 Carrying Value	1995 Market Value	Purchases and Accretions	Sales, Redemptions and Accruals	1996 Carrying Value	1996 Market Value	% of Total Market Value
Corporate and government bonds and obligations	$ 864,419,115	$ 882,010,730	$ 2,049,584,626	$ (2,014,810,588)	$ 899,193,153	$ 889,531,690	16.7%
First mortgage loans and mortgage-backed securities	581,040,918	592,061,737	838,407,489	(833,768,804)	585,679,603	582,381,233	11.0%
Common and preferred stocks (domestic)	1,766,452,098	2,118,831,723	1,155,030,560	(1,002,732,039)	1,918,750,619	2,385,256,848	44.8%
Common and preferred stocks (international)	386,235,308	386,034,078	69,400,000	(53,137,758)	402,497,550	487,928,675	9.2%
Short-term investments	317,869,973	317,869,973	12,734,041,054	(12,410,988,138)	640,922,889	640,922,889	12.0%
Real estate funds	218,931,220	199,588,034	146,946,774	(68,160,580)	297,717,414	298,243,571	5.6%
Venture capital investments	34,860,797	34,860,797	29,453,084	(25,199,170)	39,114,711	39,114,711	0.7%
Total Investments	**$4,169,809,429**	**$4,531,257,072**	**$17,022,863,587**	**$(16,408,797,077)**	**$4,783,875,939**	**$5,323,379,617**	**100.0%**

Year ended June 30, 1995

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

See accompanying independent auditors' report.

Schedule V
Fund Balance Accounts

Description of Accounts (Funds)

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

Employees' Savings Fund

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

Employers' Trust Fund

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

Annuity and Pension Reserve Fund

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

Survivors' Benefit Fund

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

Guarantee Fund

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

Expense Fund

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

A summary of the fund balance accounts follows:

Year ended June 30, 1996

	Employees' Savings Fund	Employers' Trust Fund	Annuity and Pension Reserve Fund	Survivors' Benefit Fund	Guarantee Fund	Expense Fund	Total 1996	Total 1995
Fund balance at beginning of year	$1,034,417,049	$ 599,803,179	$2,591,958,321	$ 108,517,550	-	-	$4,334,696,099	$3,575,939,975
Changes for the year:								
Contributions:								
Employers		238,552,082					238,552,082	227,703,212
Employees	138,251,468						138,251,468	133,907,577
State of Ohio subsidies			452,616	31,532			484,148	558,865
Investment income					581,602,730		581,602,730	785,991,298
Transfers from other Ohio systems			1,664,787	52,352			1,717,139	2,104,026
Benefits:								
Retirement			(241,967,864)				(241,967,864)	(226,834,067)
Disability			(34,235,981)				(34,235,981)	(31,129,681)
Survivor				(14,268,272)			(14,268,272)	(13,854,968)
Health care			(90,212,211)				(90,212,211)	(88,340,780)
Death			(836,775)				(836,775)	(890,783)
Refunds of employee contributions	(17,382,297)		(835,794)				(18,218,091)	(17,730,959)
Administrative expenses						(9,948,711)	(9,948,711)	(9,869,845)
Transfers to other Ohio systems			(3,321,377)	(120,480)			(3,441,857)	(2,857,771)
Other transfers	(49,975,719)	148,510,534	459,887,080	13,232,124	(581,602,730)	9,948,711	-	-
Net changes	70,893,452	387,062,616	90,594,481	(1,072,744)	-	-	547,477,805	758,756,124
Fund balance at end of year	**$1,105,310,501**	**$986,865,795**	**$2,682,552,802**	**$107,444,806**	-	-	**$4,882,173,904**	**$4,334,696,099**

See accompanying independent auditors' report.

Actuarial Section

Actuary's Letter

GABRIEL, ROEDER, SMITH & COMPANY
Consultants & Actuaries

24 Woodbine Avenue • Northport, New York 11768 • 516-757-0047 • 800-782-0144 • FAX 516-757-0086

November 26, 1996

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, 1996. 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, 1996 actuarial valuation.

The statutory employer contribution rate is 14% of pay. An SERS policy decision now provides the following allocations: to basic benefits including beginning in 1995 the Medicare Part-B supplement, the portion which will pay normal cost and 30 year amortization for unfunded actuarial accrued liabilities; and to health care benefits, the remainder of employer contributions.

On the basis of the 1996 valuation and the basic benefits, including the Medicare Part-B supplement, and allocated contribution rates then in effect; it is our opinion that the basic benefits portion of SERS is in sound condition in accordance with actuarial principles of level cost financing.

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

On the basis of the 1996 valuation and the health care benefits, excluding the Medicare Part-B supplement, and allocated contribution rates then in effect, the allocated contributions are sufficient to provide for a health care reserve equal to 125% of estimated annual claim costs, the funding target established by the Board in 1995.

Respectfully submitted,

Thomas J. Cavanaugh, F.S.A.

TJC/ks

Statement of Actuary
Valuation as of June 30, 1996

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, 1996, the policy required the determination of a rate for basic benefits which will amortize the unfunded actuarial accrued liabilities over a 34-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, 1996 is 10.5%.

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, 1996 is 3.5%. Effective with the 1995 fiscal year the Retirement Board replaced the level cost financing of health care with pay-as-you-go financing. To provide program security and stability, the asset target level for the health care fund is 125 per cent of annual health care. For 1996, this resulted in a health care reserve of $135.8 million versus a targeted level of $112.8 million.

In 1988, House Bill 290 provided for an employer contribution surcharge as an additional source of funding for health care. The surcharge is equal to 14% of the difference between the minimum pay and the member's pay, pro-rated for partial service credit. For the fiscal years 1995 and 1996, the minimum pay has been established as $11,200 and $11,800, respectively. The surcharge rate, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund.

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 April 11, 1996 for the period from July 1, 1990 through June 30, 1995, and were adopted as of the June 30, 1996 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, 1996 were determined on a market-related basis. The asset valuation method recognizes assumed investment income fully each year. Differences between actual and assumed investment income are phased in over a closed five-year period. To this was added the present value of expected future payments for House Bills 284 and 204, or $1,878,486.

The following significant assumptions were used in the actuarial valuation as of June 30,1996:

(1) a rate of return on the investments of 8.25% compounded annually (net after administrative expenses). The real rate of return is the portion of total investment return which is more than the inflation rate. Considering inflation recognition of 4.25 percent, the 8.25 percent investment return rate translates to an assumed real rate of return of 4 percent;

Statement Of Actuary (Continued)

(2) projected salary increases of 4.25%, compounded annually, attributable to inflation;

(3) additional projected salary increases ranging from 1% to 5% per year, attributable to seniority and merit. Pay increase assumptions for individual active members are shown for sample ages in the following table.

Increase Next Year

Sample Ages	Merit & Seniority	Base (Economy)	Total
20	5.0%	4.25%	9.25%
30	4.3	4.25	8.55
40	3.8	4.25	8.05
50	2.4	4.25	6.65
60	1.0	4.25	5.25

(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	30%	24%
55	20	18
60	15	30
65	35	30
70	25	38
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	0.10	4.60
40	0.08	0.36	3.42
50	0.24	0.80	3.06
60	0.60	2.75	2.20

Women

Sample Ages	Death	Disability	Other
20	0.01%	0.00%	8.04%
30	0.02	0.03	6.31
40	0.04	0.14	3.95
50	0.08	0.48	2.67
60	0.21	3.25	2.66

(7) 25% of eligible female retirants and 60% of eligible male retirants are assumed to elect a joint and survivor form of payment.

Statement of Actuary (Continued)

Actuarial Accrued Liabilities

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

Actuarial Accrued Liabilities June 30, 1996

Present Value of	Basic Benefits
Future monthly benefits and death benefits to present retirees and survivors	$ 2,789,997,608
Monthly benefits and refunds to present inactive members	138,612,510
Service allowances to present active members	2,755,214,755
Disability allowances to present active members	332,082,768
Death-after-retirement benefit ($500) on behalf of present active members	1,204,747
Survivor benefits on behalf of present active members who die before retiring	52,465,786
Medicare Part B supplement	34,509,602
Refunds of member contributions of present active members	24,692,760
Benefits for present active members	$ 3,200,170,418
Benefits for present covered persons	$ 6,128,780,536

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, 1987 to 1996

Actuarial Valuation as of June 30	Number of Active Members	Annual Payroll (millions)	Average Annual Salary
1987	89,534	$ 931.4	$10,403
1988	90,418	981.8	10,858
1989	91,778	1,055.4	11,500
1990	93,147	1,118.7	12,010
1991	93,574	1,176.2	12,570
1992	97,497	1,244.3	12,762
1993	99,135	1,312.7	13,242
1994	99,918	1,360.9	13,620
1995	100,784	1,429.6	14,184
1996	101,777	1,475.9	14,501

Retirants and Beneficiaries Added To and Removed From Rolls, 1987 to 1996

Fiscal Year Ended June 30	Additions During Year	Deletions During Year	Number at End of Year
1987	3,155	1,522	42,670
1988	3,512	2,215	43,967
1989	3,140	1,432	45,675
1990	3,714	2,072	47,317
1991	3,534	2,384	48,467
1992	3,488	2,360	49,595
1993	3,303	2,493	50,405
1994	4,055	2,981	51,479
1995	3,532	2,598	52,413
1996	4,032	2,967	53,478

Statement of Actuary (Continued)

Summary of Unfunded Accrued Liabilities

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

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

Basic Benefits ($ In Millions)

Valuation Year	Actuarial Accrued Liabilities (AAL)	Valuation Assets	Unfunded Actuarial Accrued Liabilities (UAAL)	Ratio of Assets to AAL	Active Member Payroll	UAAL as a % of Active Member Payroll
1987	$2,899	$2,007	$ 892	69%	$ 931	96%
1988#	3,307	2,204	1,103	67	982	112
1989	3,658	2,438	1,220	67	1,055	116
1990	4,003	2,686	1,317	67	1,119	118
1991	4,265	3,015	1,250	71	1,176	106
1991*	4,346	3,015	1,331	69	1,176	113
1992	4,693	3,330	1,363	71	1,244	110
1993	5,052	3,673	1,379	73	1,313	105
1994	5,381	3,952	1,429	73	1,361	105
1995	5,839	4,310	1,529	74	1,430	107
1996	6,184	4,766	1,418	77	1,476	96
1996**	6,129	4,778	1,351	78	1,476	92

Health Care Benefits ($ In Millions)

Valuation Year	Actuarial Accrued Liabilities (AAL)	Valuation Assets	Unfunded Actuarial Accrued Liabilities (UAAL)	Ratio of Assets to AAL	Active Member Payroll	UAAL as a % of Active Member Payroll
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

\# Legislated benefit increases
* Revised assumptions
** Revised assumptions and asset valuation method

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	(1) Member Contributions	(2) Retired Lives	(3) Present Members (Employer Portion)	(4) Valuation Assets	Portion of Accrued Liabilities Covered by Assets (1)	(2)	(3)
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	2,205	100	100	9
1989	627	1,696	1,335	2,438	100	100	9
1990	684	1,872	1,447	2,686	100	100	9
1991	749	2,025	1,491	3,015	100	100	16
1991*	749	1,973	1,624	3,015	100	100	18
1992	816	2,123	1,754	3,330	100	100	22
1993	889	2,261	1,902	3,673	100	100	27
1994	962	2,426	1,994	3,952	100	100	28
1995	1,034	2,700	2,105	4,310	100	100	27
1996	1,105	2,886	2,193	4,766	100	100	35
1996**	1,105	2,790	2,234	4,778	100	100	39

Health Care Benefits ($ In Millions)

June 30	(1) Member Contributions	(2) Retired Lives	(3) Present Members (Employer Portion)	(4) Valuation Assets	Portion of Accrued Liabilities Covered by Assets (1)	(2)	(3)
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

\# Legislated benefit increases

* Revised assumptions

** Revised assumptions and asset valuation method

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)
1987	$ 524,262,202	$1,903,559,908	$ 1,522,516,727	$2,062,983,466	100%	81%	0%
1988	577,028,334	2,096,925,418	1,684,513,116	2,239,651,064	100	79	0
1989	627,076,019	2,336,503,192	1,821,748,962	2,455,595,491	100	78	0
1990	683,812,888	2,557,636,065	1,967,248,110	2,661,597,552	100	77	0
1991	748,783,498	2,697,874,221	2,210,527,169	2,863,137,140	100	78	0
1992	816,328,094	2,956,651,040	2,438,570,210	3,065,412,517	100	76	0
1993	889,126,855	3,112,877,210	2,850,184,218	3,294,641,307	100	77	0
1994	961,669,425	3,278,688,992	2,975,328,745	3,575,939,975	100	80	0
1995	1,034,417,049	2,700,475,871	2,104,134,523	4,196,486,105	100	100	22
1996	1,105,310,501	2,789,997,608	2,233,472,427	4,746,369,593	100	100	38

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

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

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

Benefit Expenses by Type
Last Ten Years

Table II

Year Ending June 30	Service	Disability	Survivor	Health Care	Death Benefits and Refunds	Total
1987	$118,726,020	$12,780,695	$8,958,365	$51,728,280	$10,862,247	$203,055,607
1988	129,330,510	14,138,302	9,479,476	50,568,576	10,453,137	213,970,001
1989	144,870,006	15,968,925	10,154,865	55,688,417	12,119,325	238,801,538
1990	162,866,492	18,077,033	10,886,380	62,746,014	13,242,633	267,818,552
1991	173,348,030	19,854,430	11,358,736	71,633,065	13,076,201	289,270,462
1992	185,750,980	22,258,565	11,814,421	81,851,492	13,498,111	315,173,569
1993	198,878,409	24,987,872	12,666,260	87,079,286	14,288,721	337,900,548
1994	212,437,443	27,367,790	13,067,061	85,496,108	14,713,825	353,082,227
1995	226,834,067	31,129,681	13,854,968	88,340,780	18,621,742	378,781,238
1996	241,967,864	34,235,981	14,268,272	90,212,211	19,054,866	399,739,194

Number of Benefit Recipients by Type
Last Ten Years

Table III

Year Ending June 30	Service	Disability	Survivor	Total
1987	36,750	2,977	2,943	42,670
1988	37,877	3,084	3,006	43,967
1989	39,408	3,204	3,063	45,675
1990	40,856	3,349	3,112	47,317
1991	41,773	3,518	3,176	48,467
1992	42,690	3,661	3,244	49,595
1993	43,166	3,960	3,279	50,405
1994	44,024	4,081	3,374	51,479
1995	44,732	4,285	3,396	52,413
1996	45,555	4,497	3,426	53,478

Number of Participating Employers
Last Ten Years

Table IV

Year	Total	Counties	Locals	Cities	Villages	Colleges	Technical	Vocational	Other
1987	769	86	376	192	49	2	13	49	2
1988	768	84	376	192	49	2	13	49	3
1989	766	84	373	192	49	2	13	49	4
1990	766	84	373	192	49	2	13	49	4
1991	765	84	372	192	49	2	13	49	4
1992	764	84	371	192	49	2	13	49	4
1993	764	84	371	192	49	2	13	49	4
1994	765	83	372	192	49	2	13	49	5
1995	766	83	371	193	49	2	13	49	6
1996	757	76	371	193	49	2	13	49	4

Retirement Averages Last Ten Years

Table V

Service Retirement

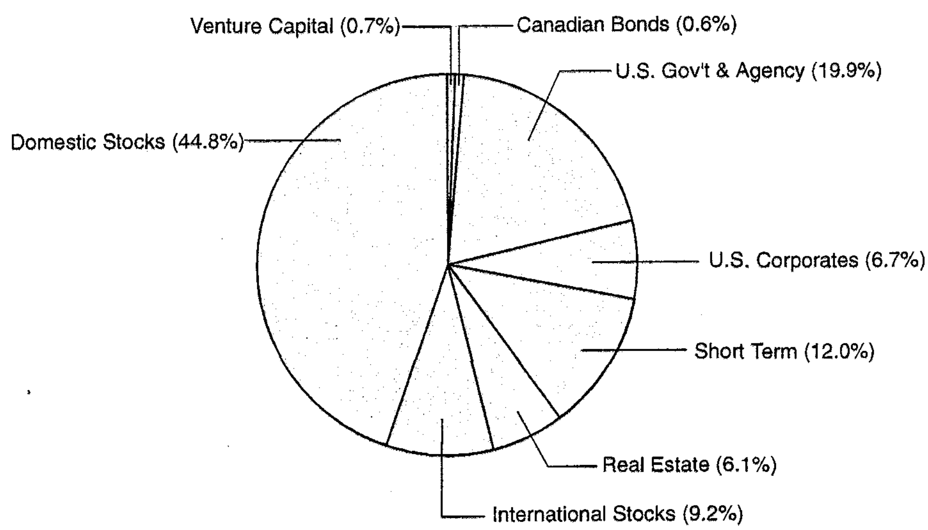
Year Ending June 30	Service Credit	Monthly Amount	Age	Salary
1987	17.635	$328.76	63.77	$10,458
1988	19.019	378.29	62.13	11,989
1989	19.231	431.17	61.40	13,015
1990	18.734	424.85	60.75	13,034
1991	18.909	447.56	63.35	13,352
1992	19.528	517.85	63.21	15,298
1993	20.211	549.01	63.45	15,984
1994	20.551	589.07	63.34	16,704
1995	20.201	587.84	63.50	16,935
1996	20.460	603.12	63.37	17,243

Disability Retirement

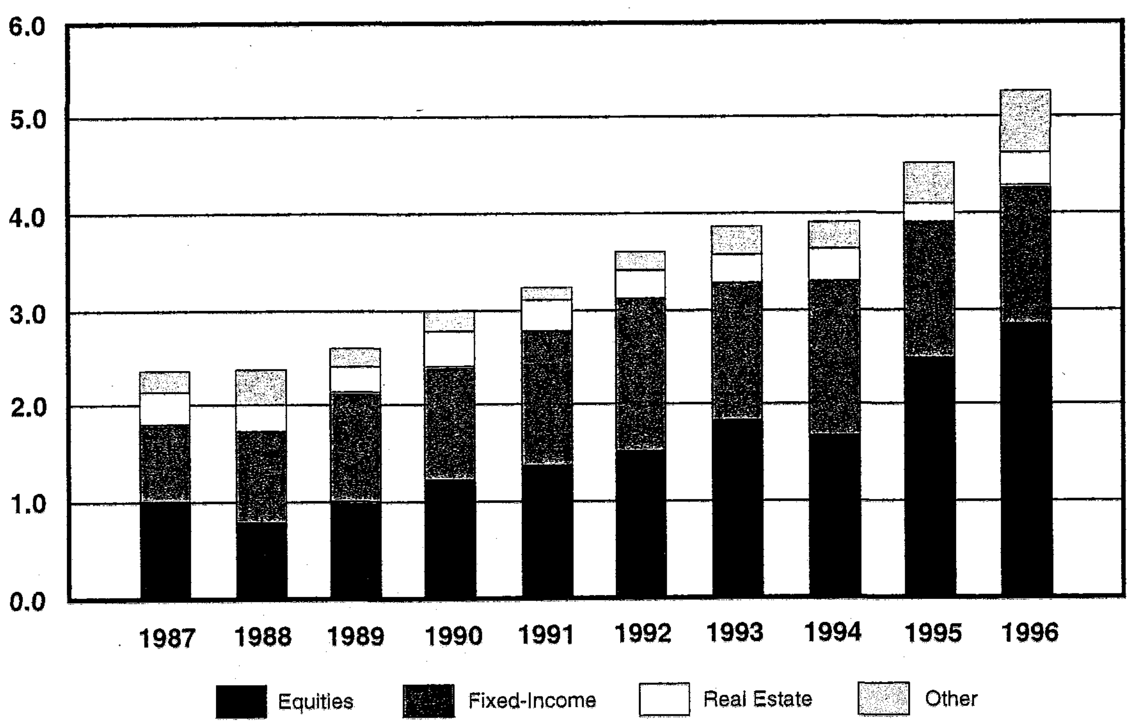
Year Ending June 30	Service Credit	Monthly Amount	Age	Salary
1987	13.484	$466.02	57.42	$12,184
1988	13.086	509.27	54.64	13,060
1989	14.821	562.42	54.31	13,433
1990	14.018	551.12	53.51	13,539
1991	14.517	598.58	55.56	14,414
1992	14.595	674.50	54.80	15,644
1993	15.123	709.53	56.42	16,652
1994	15.148	738.03	58.20	17,370
1995	15.208	790.66	57.04	18,282
1996	14.694	794.67	55.76	18,172

Investment Section

Investment Distribution by Market Value as of June 30, 1996



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 Fund's participants and beneficiaries. And finally, state statutes and Board policy require the prudent diversification of the System's assets.

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

Asset Allocation

During the year ended June 30, 1996, SERS' staff, investment consultant and Board were involved in the selection of several money managers to actively manage the fixed-income portfolio and part of the equity portfolio. Active management of part of the equity portfolio is expected to increase the overall diversification and total return of SERS' Total Fund. In the Fall of 1995, four fixed-income managers were hired to actively manage all of SERS' fixed-income portfolio. Six equity managers were hired in the Spring of 1996 to actively manage a portion of SERS' domestic equity portfolio and two international equity managers were hired in the Summer of 1996 to actively manage a portion of SERS' international equity portfolio. Approximately 60% of the domestic equity and international equity portfolios will continue to be managed passively.

As of June 30, 1996, SERS' Total Fund was diversified in the following manner:

- Domestic Equities were 44.8% of the Fund versus our target of 45%.
- International Equities were 9.2% of the Fund versus our target of 10%.
- Domestic Fixed-Income was 27.2% of the Fund versus our target of 28%.
- Real Estate was 6.1% of the Fund versus our target of 10%.
- Venture Capital was 0.7% of the Fund versus our target of 2%.
- Cash Equivalents were 12% of the Fund versus our target of 5%.

As can be seen from the above, SERS' Total Fund is very close to the targets established by the Board except for real estate and cash equivalents.

Fund Performance

Major asset class returns for the fiscal year ended June 30 were very attractive for all asset classes except fixed income. Returns ranged from 26.0% for the Russell 3000 Index (domestic equities) to 5.0% for the Lehman Brothers Aggregate Bond Index.

The return for SERS' Total Fund for the year ended June 30 was 16.8% versus 16.4% for the Total Fund's benchmark. For the ten years ended June 30, the return for the Total Fund was 10.0% versus 9.6% for the Total Fund's benchmark.

As mentioned previously, domestic equities was the best performing asset class. SERS' domestic equity portfolio returned 25.0% and 13.2%, respectively, for the one- and ten-year periods ended June 30. This compared quite well to the Russell 3000 one- and ten-year returns of 26.0% and 13.2%, respectively.

Investment Report (Continued)

International equities was the second best performing asset class. SERS started investing in international equities in December of 1994, so the fiscal year ended June 30, 1996 is the first full year of performance for international equities in SERS' portfolio. SERS' international equity portfolio returned 22.2% for the fiscal year. The MSCI-EAFE 50% Hedged Index also returned 22.2% for the year. All of SERS' international equities were in an EAFE Index Fund during the fiscal year. As mentioned earlier, two active international equity managers were selected in the Summer of 1996 to diversify the international portfolio further and to add additional return.

SERS' real estate portfolio continues to do quite well especially in the more recent years. SERS' real estate portfolio returned 10.8% and 3.2% for the one- and ten-year periods, respectively. The NCREIF Property Index returned 8.3% and 4.1% for the one- and ten-year periods.

SERS' fixed-income portfolio performed marginally better than its benchmark during the year; but, as was mentioned earlier, the fixed-income markets did not perform as well as the other asset classes during the fiscal year. SERS' fixed-income portfolio returned 5.2% and 8.6% for the one- and ten-year periods, respectively. The Lehman Brothers Aggregate Bond Index returned 5.0% and 8.6% for the one- and ten-year periods.

Fund Strategy

Two goals for the fiscal year just ended were: one, to fully diversify the domestic and international equity portfolios by management style; and two, to increase the number of active fixed-income managers. As mentioned earlier, four active fixed-income managers, six active domestic equity managers and two active international equity managers were approved to be hired during the fiscal year. This completes the objectives of further diversifying the domestic and international equity portfolios; and increasing the number of active fixed-income managers.

Two new goals have been established for the Total Fund for the coming fiscal year. The first goal is for SERS' staff, investment consultant and the Board to review SERS' assets and liabilities to see if asset class targets need to be revised. If revisions are indicated, SERS' staff and investment consultant will determine the most efficient manner in which to move the asset classes to the new target levels. It is expected that the asset/liability review will be completed during the first half of the coming fiscal year with any changes being implemented during the second half of the fiscal year.

Another goal for the Fund is to review Ohio-based money managers to see if there are any who have a style and performance record that would be complementary to SERS' existing external managers. SERS' staff, investment consultant and Board have scheduled this search to occur during the first half of the fiscal year. It is anticipated that approved Ohio-based money managers will be funded during the second half of SERS' fiscal year.

In addition to these two new goals, the foremost responsibility of SERS' staff and Board is to ensure that the Fund continues to be managed in the most prudent manner possible and that the performance of the Fund continues to be among the best in the country, given the legal restrictions and risk tolerance established by state statutes and Board policy.

Time-weighted Rates of Return for the Years Ended June 30

	1996	1995	1994	1993	1992	Annualized Rates of Return 3-Year	5-Year	10-Year
Stock Domestic								
SERS	25.0%	24.8%	1.3%	12.7%	13.0%	16.6%	15.1%	13.2%
Standard & Poor's 500	26.1	26.1	1.4	13.6	13.4	17.2	15.7	13.8
Russell 3000 Index	26.0	24.9	1.0	16.0	-	16.7	16.2	13.2
Stock International								
SERS	22.2	-	-	-	-	-	-	-
MSCI-EAFE 50% U.S. $ Hedged Index	22.2	-	-	-	-	-	-	-
Fixed-income								
SERS	5.2	11.3	(2.5)	10.4	14.9	4.5	7.7	8.6
Lehman Bros. Aggregate	5.0	12.5	(1.3)	11.8	0.0	5.3	8.3	8.6
Real estate								
SERS	10.8	10.6	7.2	(3.9)	(5.8)	9.5	3.5	3.2
NCREIF(one quarter in arrears)	8.2	7.9	4.5	(3.3)	(7.1)	5.7	1.4	4.1
Short-term								
SERS	5.8	5.5	3.5	3.3	4.9	4.9	4.6	6.2
Salomon Bros. 30 Day Treas. Bill	5.2	4.8	3.1	2.9	4.4	4.4	4.0	5.2
Venture capital								
SERS	116.6	64.3	49.9	20.6	4.1	74.7	47.7	19.8
Total portfolio								
SERS	16.8%	16.6%	0.6%	9.7%	11.0%	11.1%	10.8%	10.0%
*Policy Benchmark	16.4%	16.0%	1.0%	9.4%	9.3%	10.8%	10.1%	9.6%

Source: Frank Russell Company

All returns are reported gross of fees and in accordance with the Association for Investment Management and Research (AIMR) standards.

*Policy Benchmark (45% of Russell 3000, 5% MSCI-EAFE Hedged, 5% MSCI-EAFE Unhedged, 30% Lehman Brothers Aggregate, 10% NCREIF (1 qtr. in arrears), 5% Salomon Bros. 30 day T-bill)

Investment Portfolio
As of June 30, 1996

Combined Fixed-Income Portfolio

Description	Rating	Coupon	Mature Date	Par Value	Book Value	Market Value
Canadian Bonds:						
Ontario Province	A2	8.000	10/17/01	$10,000,000	$10,795,330	$10,479,300
Quebec Hydro	AA3	8.050	07/07/24	4,000,000	4,360,131	4,240,160
Quebec Hydro	A2	9.500	11/15/30	4,500,000	5,200,476	5,286,150
Quebec Hydro	A2	7.500	04/01/16	2,000,000	1,958,239	1,948,340
Quebec Province	A2	7.125	02/09/24	4,665,000	4,360,423	4,262,737
Quebec Province	A2	6.500	01/17/06	6,000,000	5,638,217	5,623,980
Total Canadian Bonds				$31,165,000	$32,312,816	$31,840,667
Corporate Bonds:						
Anheuser Busch Cos.	A1	8.750	12/01/99	$10,000,000	$10,336,536	$10,612,600
Asset Sec. Corp. 1995-MD4 A1	AAA	7.100	08/13/29	3,371,224	3,267,552	3,312,227
Asset Sec. Corp. 1996-D2 A1	AAA	6.920	02/14/29	6,753,339	6,570,618	6,550,739
Associates Corp.	A1	5.750	10/15/03	10,000,000	9,720,815	9,178,400
Associates Corp.	AA3	7.600	12/17/02	7,000,000	7,000,000	7,234,010
Associates Corp.	A1	7.650	12/23/02	5,000,000	5,000,000	5,179,900
Baltimore Gas & Electric Co.	A1	5.500	04/15/04	5,000,000	4,797,721	4,467,200
Banc One Auto Trust Ser 1996-A A	AAA	6.100	10/15/02	2,416,849	2,415,811	2,406,069
Banc One Auto Trust Ser 1996-B A	AAA	6.550	02/15/03	2,282,511	2,282,511	2,293,856
Bank One Corporation	A1	7.250	08/01/02	13,390,000	13,657,336	13,489,086
Bankamerica Corp.	A2	7.125	05/12/05	5,500,000	5,838,120	5,420,470
Boatmens Auto Trust Ser 1995-A A3	AAA	6.100	05/15/00	5,000,000	4,994,157	4,913,950
Caterpillar Financial Asset Trust	AAA	6.300	07/25/02	3,100,000	3,098,110	3,085,430
Chase 1994-G AP PO	AAA	0.000	04/25/25	1,628,982	992,343	895,940
Chase 1994-H AP PO	AAA	0.000	06/25/25	2,169,162	1,252,214	1,187,616
Chase Manhattan Credit Card SER 1996-3	AAA	7.040	02/15/04	4,775,000	4,774,274	4,830,199
Chemical Bank of NY	A1	7.000	06/01/05	6,000,000	6,231,454	5,841,840
Chesapeake & Potomac Tel	AA3	8.300	08/01/31	3,375,000	3,980,290	3,626,201
Coca-Cola Company	AA3	7.875	09/15/98	8,000,000	8,136,348	8,234,960
Consolidated Rail Corp.	A2	9.750	06/15/20	8,000,000	10,062,889	9,746,400
Dayton Hudson Corporation	A3	8.875	04/01/22	3,000,000	3,312,189	3,268,740
Dayton Hudson Corporation	A3	9.700	06/15/21	6,000,000	7,281,378	7,025,880
Dean Witter Discover & Co.	A2	6.750	08/15/00	6,000,000	5,975,991	5,975,880
Discover Card Trust SER 1991-D A	AAA	8.000	10/16/00	5,000,000	5,143,750	5,143,750
Drexel X 3 PO	AAA	0.000	12/01/18	3,136,601	2,429,802	2,345,582
Ford Holdings	A1	9.250	03/01/00	6,000,000	5,929,432	6,464,880
Ford Motor Company	A1	5.200	01/01/97	3,150,000	3,111,115	3,136,644
Ford Motor Company	A2	9.950	02/15/32	8,000,000	10,106,418	10,002,640
Ford Motor Credit Company	A1	8.000	10/01/96	2,950,000	2,952,274	2,964,455

Investment Portfolio (Continued)

Combined Fixed-Income Portfolio (Continued)

Description	Rating	Coupon	Mature Date	Par Value	Book Value	Market Value
Corporate Bonds: (Continued)						
Gen. Motors Accept. Corp.	A3	8.875	06/01/10	$ 9,150,000	$ 10,887,728	$ 10,207,100
General Electric Capital Services	AAA	7.500	08/21/35	10,000,000	10,057,281	9,989,600
Golden West Financial	A3	6.700	07/01/02	3,500,000	3,471,610	3,434,865
Green Tree Financial Corp. 1995-8 A2	AAA	6.150	01/15/26	5,000,000	4,997,008	4,962,500
Green Tree Financial Corp. 1995-9 A2	AAA	6.000	01/15/27	5,950,000	5,975,404	5,903,471
Green Tree Financial Corp. 1996-A A1	AAA	5.550	02/15/18	6,345,208	6,339,154	6,213,989
Hanson America, Inc.	A3	2.390	03/01/01	9,400,000	7,815,513	8,058,620
Health Care Receivables 144A	AAA	7.200	07/01/00	1,100,000	1,100,000	1,100,000
ITT Hartford	A1	8.300	12/01/01	7,000,000	7,415,813	7,408,030
Inter-American Dev Bank	AAA	7.125	03/15/23	10,000,000	9,546,175	9,344,600
J.C. Penney & Company	A1	5.375	11/15/98	6,000,000	5,913,722	5,853,420
Loews Corporation	A1	7.625	06/01/23	9,500,000	9,019,197	8,997,925
May Department Stores	A2	7.625	08/15/13	5,750,000	5,945,932	5,748,045
Nationsbank Corporation	A3	7.750	08/15/15	6,000,000	6,000,000	5,994,960
Nomura Asset 1996-MD5 A1B	AAA	7.120	04/13/36	2,700,000	2,697,508	2,632,500
Northwest Airlines Corp.	A2	7.670	01/02/15	6,000,000	6,000,000	6,073,140
Norwest Corporation	AA3	6.200	12/01/05	5,000,000	4,992,667	4,640,150
Norwest Corporation	AA3	6.500	06/01/05	6,950,000	6,813,712	6,603,751
Pepsico Incorporated	A1	7.625	11/01/98	12,000,000	12,188,416	12,288,720
Pepsico Incorporated	A1	7.750	10/01/98	20,000,000	20,635,317	20,449,200
Premier Auto Trust 1996-1 A4	AAA	6.050	04/06/00	5,000,000	4,966,326	4,959,350
Pru-Bache CMO 14-H IO	AAA	1204.650	03/20/21	41,390	1,333,642	1,469,376
Pru-Bache CMO 4-B PO	AAA	0.000	09/01/18	1,878,907	1,443,476	1,396,253
Ralston Purina Company	AA1	7.750	10/01/15	8,050,000	8,108,747	7,956,701
Union Electric Company	A1	6.875	08/01/04	8,000,000	8,580,263	7,858,560
Union Electric Company	A1	7.650	07/15/03	7,000,000	7,520,194	7,204,190
Union Pacific Equipment Trust	AA1	7.750	07/01/12	4,847,686	4,920,740	4,920,740
Wal-Mart Stores	A1	5.875	10/15/05	1,000,000	996,715	913,300
Wal-Mart Stores	AA1	6.500	06/01/03	6,000,000	6,215,470	5,823,000
Walt Disney Company	AA2	5.800	10/27/08	4,500,000	4,329,941	3,985,785
Walt Disney Company	A1	7.550	07/15/93	5,000,000	5,088,651	4,867,100
Wisconsin Electric Power	AAA	7.250	08/01/04	1,000,000	998,104	1,007,180
Total Corporate Bonds				$355,661,859	$362,965,874	$357,101,665

Investment Portfolio (Continued)

Combined Fixed-Income Portfolio (Continued)

Description	Rating	Coupon	Mature Date	Par Value	Book Value	Market Value
U.S. Government & Agency:						
FHLMC D70628	AAA	6.500	04/01/26	$12,070,888	$11,139,273	$11,309,335
FHLMC 1693-H	AAA	6.000	12/15/08	20,000,000	18,726,103	18,493,600
FHLMC C80398	AAA	6.500	05/01/26	1,009,999	932,360	946,279
FHLMC CMO L-5	AAA	7.900	05/01/01	2,756,372	2,756,372	2,783,073
FHLMC CMO M-6	AAA	8.800	12/01/15	4,640,893	4,562,466	4,664,098
FHLMC CMO SER 1730 A	AAA	7.000	07/15/17	2,636,253	2,654,443	2,633,775
FHLMC CMO SER 1593 A	AAA	7.000	12/15/17	2,883,810	2,914,286	2,881,099
FHLMC CMO SER 1725 A	AAA	7.000	09/15/16	2,731,221	2,751,977	2,726,933
FHLMC D64097	AAA	8.500	01/01/23	13,947,978	14,509,201	14,474,374
FHLMC GMC D-1979	AAA	12.450	09/15/09	3,138,686	3,044,621	3,197,536
FHLMC GOLD D1-6930	AAA	7.500	03/01/22	2,067,368	2,018,219	2,042,973
FHLMC GOLD D1-9553	AAA	8.000	05/01/22	1,266,953	1,270,094	1,285,399
FHLMC GOLD C90041	AAA	6.500	11/01/13	4,632,864	4,682,122	4,340,577
FHLMC GOLD D70745	AAA	7.000	08/01/24	2,207,976	2,135,527	2,126,899
FHLMC GOLD C00419	AAA	7.500	09/01/25	1,666,408	1,695,517	1,646,744
FHLMC GOLD C00441	AAA	7.500	01/01/26	849,070	865,119	839,051
FHLMC GOLD C80334	AAA	7.500	08/01/25	2,324,367	2,366,753	2,296,940
FHLMC GOLD C80358	AAA	7.500	11/01/25	948,923	965,897	937,726
FHLMC GOLD D62691	AAA	7.500	08/01/25	117,309	119,554	115,925
FHLMC GOLD D62902	AAA	7.500	08/01/25	194,460	198,145	192,165
FHLMC GOLD D63220	AAA	7.500	09/01/25	658,204	670,671	650,437
FHLMC GOLD D63580	AAA	7.500	09/01/25	951,885	968,935	940,653
FHLMC GOLD D64528	AAA	7.500	10/01/25	973,325	990,719	961,839
FHLMC GOLD D64600	AAA	7.500	10/01/25	356,566	363,346	352,359
FHLMC GOLD D65029	AAA	7.500	11/01/25	113,384	115,554	112,046
FHLMC GOLD D65037	AAA	7.500	11/01/25	485,177	494,368	479,452
FHLMC GOLD D65068	AAA	7.500	11/01/25	169,064	172,306	167,069
FHLMC GOLD D65536	AAA	7.500	11/01/25	204,761	208,877	202,344
FHLMC GOLD D65985	AAA	7.500	12/01/25	470,036	478,938	464,489
FHLMC GOLD D65990	AAA	7.500	12/01/25	1,761,392	1,792,766	1,740,608
FHLMC GOLD D66042	AAA	7.500	12/01/25	1,739,992	1,770,983	1,719,460
FHLMC GOLD D66045	AAA	7.500	11/01/25	946,325	963,180	935,159
FHLMC GOLD D66124	AAA	7.500	12/01/25	184,937	188,439	182,754
FHLMC GOLD D66231	AAA	7.500	12/01/25	711,951	725,440	703,550
FHLMC GOLD D66272	AAA	7.500	12/01/25	200,776	204,578	198,406
FHLMC GOLD D66382	AAA	7.500	12/01/25	442,350	450,230	437,130
FHLMC GOLD D66408	AAA	7.500	12/01/25	136,056	138,634	134,451
FHLMC GOLD D66441	AAA	7.500	12/01/25	460,036	468,750	454,607
FHLMC GOLD D66460	AAA	7.500	12/01/25	818,738	833,321	809,077
FHLMC GOLD D66461	AAA	7.500	12/01/25	318,379	324,066	314,622
FHLMC GOLD D66463	AAA	7.500	12/01/25	378,849	385,597	374,379
FHLMC GOLD D66490	AAA	7.500	12/01/25	1,852,953	1,885,954	1,831,088

Investment Portfolio (Continued)

Combined Fixed-Income Portfolio (Continued)

Description	Rating	Coupon	Mature Date	Par Value	Book Value	Market Value
U.S. Government & Agency: (Continued)						
FHLMC GOLD D66618	AAA	7.500	01/01/26	$ 198,865	$ 202,632	$ 196,518
FHLMC GOLD D66700	AAA	7.500	12/01/25	174,453	177,757	172,394
FHLMC GOLD D67135	AAA	7.500	01/01/26	1,076,305	1,096,696	1,063,604
FHLMC GOLD D67247	AAA	7.500	12/01/25	1,765,845	1,799,497	1,745,008
FHLMC GOLD D67429	AAA	7.500	01/01/26	502,400	511,917	496,471
FHLMC GOLD D67573	AAA	7.500	01/01/26	7,025,099	7,158,374	6,942,203
FHLMC GOLD TBA	AAA	8.000	07/17/26	2,205,000	2,206,378	2,207,095
FHLMC GOLD TBA	AAA	7.000	07/01/26	28,000,000	26,891,563	26,978,000
FHLMC MUL-FAM220022	AAA	9.250	06/01/02	8,888,719	8,837,156	9,784,524
FHLMC MUL-FAM490011	AAA	10.000	09/01/97	2,319,114	2,319,469	2,497,384
FHLMC PC 160080	AAA	10.500	05/01/09	43,975	43,975	47,929
FHLMC PC 170034	AAA	12.000	07/01/10	8,227	8,227	9,346
FHLMC PC 170068	AAA	12.500	10/01/12	6,061	6,061	7,003
FHLMC PC 170072	AAA	14.000	12/01/12	53,776	53,776	63,202
FHLMC PC 170073	AAA	12.500	01/01/13	1,138	1,138	1,314
FHLMC PC 170077	AAA	12.500	04/01/13	8,561	8,561	9,923
FHLMC PC 170091	AAA	12.500	01/01/14	2,935	2,935	3,391
FHLMC PC 181528	AAA	13.000	08/01/10	22,399	22,399	26,127
FHLMC PC 186771	AAA	9.250	06/01/11	1,759,370	1,757,566	1,853,813
FHLMC PC 218421	AAA	9.000	07/01/02	421,448	421,448	434,521
FHLMC PC 280327	AAA	9.000	09/01/16	347,449	345,642	365,413
FHLMC PC 282425	AAA	9.000	12/01/16	436,254	433,987	458,808
FHLMC PC 290357	AAA	9.500	01/01/17	1,120,523	1,120,327	1,202,063
FHLMC PC A01569	AAA	9.000	11/01/19	2,555,458	2,704,083	2,684,917
FHLMC PC C00427	AAA	8.000	10/01/25	3,679,662	3,777,532	3,713,699
FHLMC PC D65452	AAA	8.000	11/01/25	2,886,242	2,972,480	2,912,940
FHLMC POOL C00349	AAA	7.000	04/01/24	5,367,033	5,224,130	5,169,956
FHLMC POOL D53306	AAA	7.000	05/01/24	5,331,748	5,190,306	5,135,967
FHLMC POOL D66768	AAA	7.000	09/01/24	8,130,399	7,897,550	7,831,851
FHLMC 12A	AAA	9.250	11/15/19	1,016,842	1,014,449	1,059,102
FHLMC 1A	AAA	10.150	04/15/06	1,603,038	1,603,038	1,621,986
FHLMC C007	AAA	7.000	09/17/31	6,956,777	6,777,014	6,628,487
FHLMC STRIP 140 B IO	AAA	9.500	09/01/21	3,110,202	870,340	978,718
FNMA CMO G 1994-6 Class PY	AAA	7.750	05/17/24	775,000	813,774	785,656
FNMA 190534	AAA	6.000	12/01/08	187,144	182,495	177,049
FNMA 190544	AAA	9.000	09/01/22	2,487,786	2,626,129	2,619,365
FNMA 1992-110 J	AAA	7.000	12/25/06	6,358,000	6,339,535	6,306,309
FNMA 1992-166J	AAA	7.000	05/25/07	11,000,000	10,819,067	10,835,000
FNMA 1993-103 Class PV	AAA	7.000	02/25/14	2,618,119	892,430	154,631
FNMA 1993-78 G	AAA	6.500	11/25/07	4,917,000	4,776,414	4,738,759
FNMA 2160	AAA	8.000	05/01/09	2,969,557	3,071,882	3,052,913
FNMA 250453	AAA	6.000	11/01/10	506,617	494,049	479,290
FNMA 250477	AAA	6.000	01/01/11	2,710,998	2,643,683	2,564,767
FNMA 269256	AAA	6.000	01/01/09	476,977	465,195	451,249

Investment Portfolio (Continued)

Combined Fixed-Income Portfolio (Continued)

Description	Rating	Coupon	Mature Date	Par Value	Book Value	Market Value
U.S. Government & Agency: (Continued)						
FNMA 269803	AAA	6.000	06/01/09	$ 25,753	$ 25,116	$ 24,363
FNMA 271156	AAA	6.000	02/01/09	20,778	20,265	19,658
FNMA 303998	AAA	9.000	06/01/26	7,961,739	8,301,666	8,352,342
FNMA 315666	AAA	6.000	12/01/10	1,040,542	1,013,892	984,415
FNMA 320290	AAA	6.000	08/01/10	40,716	39,706	38,519
FNMA 320558	AAA	6.000	09/01/10	175,932	171,548	166,443
FNMA 320572	AAA	6.000	11/01/10	282,605	275,599	267,361
FNMA 324421	AAA	6.000	09/01/10	185,188	180,593	175,199
FNMA 324550	AAA	6.000	09/01/10	166,366	162,242	157,392
FNMA 324999	AAA	6.000	09/01/10	275,726	268,794	260,853
FNMA 325342	AAA	6.000	12/01/10	542,618	529,159	513,349
FNMA 327119	AAA	6.000	10/01/10	28,545	27,837	27,006
FNMA 329098	AAA	6.000	11/01/10	365,276	356,216	345,573
FNMA 330572	AAA	6.000	11/01/10	567,023	552,742	536,437
FNMA 331588	AAA	6.000	12/01/10	261,613	255,123	247,502
FNMA 333715	AAA	6.000	12/01/10	902,330	879,942	853,659
FNMA 334097	AAA	6.000	03/01/09	14,624,894	14,573,701	13,835,003
FNMA 44027	AAA	7.000	12/01/07	11,248,267	11,353,303	11,196,975
FNMA ARM 233671	AAA	7.854	09/01/23	2,650,018	2,656,578	2,650,018
FNMA G-16 CL A PO	AAA	0.000	06/15/21	844,440	671,745	592,949
FNMA G-2 CL B PO	AAA	0.000	02/25/20	2,412,746	1,900,399	1,792,960
GNMA CMO Series 1984-2 E	AAA	7.875	04/25/08	11,523,544	11,747,056	11,642,352
GNMA	AAA	6.500	Various	36,393,372	35,499,302	33,908,992
GNMA	AAA	7.000	Various	15,380,353	16,250,525	14,825,456
GNMA	AAA	7.500	Various	84,321,987	83,525,008	83,774,382
GNMA	AAA	7.875	Various	8,905,800	8,961,452	8,914,884
GNMA	AAA	8.000	Various	17,189,691	17,613,016	17,462,871
GNMA	AAA	8.500	Various	5,901,750	5,893,796	6,130,619
GNMA	AAA	9.000	Various	36,512,108	37,321,099	38,270,968
GNMA	AAA	9.500	Various	5,201,924	5,194,096	5,596,968
GNMA	AAA	10.000	Various	1,759,706	1,749,258	1,918,825
GNMA	AAA	10.500	Various	484,522	484,522	534,593
GNMA	AAA	11.000	Various	1,019,477	1,019,477	1,127,971
GNMA	AAA	11.500	Various	529,194	529,194	593,761
GNMA	AAA	12.000	Various	175,063	175,063	200,755
GNMA	AAA	12.500	Various	1,132,929	1,132,929	1,311,714
GNMA	AAA	13.000	Various	45,934	45,934	54,015
GNMA	AAA	13.500	Various	162,711	162,711	193,473
GNMA	AAA	14.000	Various	43,156	43,156	52,029
GNMA II 8580 ARM	AAA	6.500	01/20/25	4,759,889	4,791,105	4,783,689
GNMA II 8643 ARM	AAA	7.000	06/20/25	8,878,588	9,063,841	9,028,459
GNMA II 8660 ARM	AAA	6.500	07/20/25	2,986,146	3,022,007	3,019,740

Investment Portfolio (Continued)

Combined Fixed-Income Portfolio (Continued)

Description	Rating	Coupon	Mature Date	Par Value	Book Value	Market Value
U.S. Government & Agency: (Continued)						
GNMA II 8685 ARM	AAA	6.500	08/20/25	$ 3,114,758	$ 3,153,649	$ 3,149,799
GNMA II 8703 ARM	AAA	6.500	09/20/25	6,253,206	6,340,880	6,323,555
GNMA II 8720 ARM	AAA	6.500	10/20/25	2,913,575	2,941,404	2,935,426
Res. Trust Co. 1992-16 B5 ARM	AAA	6.995	06/25/24	8,000,325	7,935,540	7,790,317
Res. Trust Co. 1992-9 A5 ARM	AAA	6.929	04/25/22	2,720,769	2,710,274	2,673,156
Res. Trust Co. 1992-9 B3 ARM	AAA	6.906	09/25/30	3,233,348	3,179,828	3,112,098
Res. Trust Co. 1994-1 M3 ARM	AAA	8.002	09/25/29	5,802,937	5,960,785	5,875,474
Sallie Mae 1996-3 B	AAA	6.226	10/25/11	5,500,000	5,500,000	5,500,000
Treasury Bond	AAA	7.250	05/15/16	11,385,000	12,672,153	11,651,864
Treasury Bond	AAA	7.500	11/15/16	55,125,000	59,507,677	57,915,428
Treasury Bond	AAA	8.750	05/15/17	1,410,000	1,827,253	1,672,838
Treasury Bond	AAA	8.500	02/15/20	12,550,000	14,788,518	14,634,430
Treasury Bond	AAA	8.750	08/15/20	2,685,000	3,486,498	3,211,931
Treasury Bond	AAA	7.875	02/15/21	5,000,000	5,359,366	5,485,150
Treasury Bond	AAA	7.125	02/15/23	9,505,000	9,283,439	9,607,464
Treasury Bond	AAA	6.250	08/15/23	860,000	786,072	779,642
Treasury Bond	AAA	6.500	08/15/05	34,800,000	35,811,996	34,299,576
Treasury Note	AAA	7.625	02/15/25	3,260,000	3,863,898	3,512,650
Treasury Note	AAA	6.000	02/15/26	18,580,000	16,338,054	16,475,258
Treasury Note	AAA	7.875	08/15/01	16,000,000	17,016,187	16,949,920
Treasury Note	AAA	6.375	08/15/02	18,900,000	18,395,016	18,749,367
Treasury Note	AAA	6.250	02/15/03	3,750,000	3,628,263	3,683,775
Treasury Note	AAA	5.750	08/15/03	24,805,000	23,747,724	23,622,794
Treasury Note	AAA	5.875	02/15/04	6,860,000	6,462,745	6,556,651
Treasury Note	AAA	6.750	05/31/99	12,350,000	12,433,918	12,492,766
Treasury Note	AAA	7.875	11/15/04	10,000,000	10,426,704	10,748,400
Treasury Note	AAA	7.750	01/31/00	21,380,000	22,136,531	22,285,229
Treasury Note	AAA	7.250	02/15/98	29,955,000	30,604,313	30,484,005
Treasury Note	AAA	6.875	03/31/00	6,670,000	6,792,457	6,766,915
Treasury Note	AAA	5.375	11/30/97	6,500,000	6,471,108	6,446,180
Treasury Note	AAA	5.250	12/31/97	9,315,000	9,233,085	9,217,472
Treasury Note	AAA	5.000	01/31/98	18,190,000	17,859,443	17,911,466
Treasury Note	AAA	5.000	02/15/99	5,200,000	5,059,746	5,044,832
Treasury Note	AAA	9.000	05/15/98	14,500,000	15,038,494	15,231,815
Treasury Note	AAA	9.250	08/15/98	26,100,000	26,722,567	27,670,176
Treasury Note	AAA	6.875	05/15/06	11,610,000	11,534,595	11,738,755
Treasury Note	AAA	6.500	05/31/01	5,510,000	5,451,296	5,512,590
Treasury Note	AAA	6.625	06/30/01	11,690,000	11,622,783	11,766,686
Treasury Note SER N-2000	AAA	6.125	07/31/00	21,700,000	21,497,835	21,459,347
Treasury Notes	AAA	6.250	08/31/00	5,500,000	5,464,085	5,461,335
U.S. T-Strips	AAA	0.000	08/15/20	42,400,000	8,020,462	7,643,024
U.S. T-Strips	AAA	0.000	08/15/00	40,735,000	31,853,999	31,321,956

Investment Portfolio (Continued)

Combined Fixed-Income Portfolio (Continued)

Description	Rating	Coupon	Mature Date	Par Value	Book Value	Market Value
U.S. Government & Agency: (Continued)						
U.S. T-Strips	AAA	0.000	05/15/99	$ 8,465,000	$ 7,215,106	$ 7,077,671
VA Vendee Mtg Trust 1994-1 2D	AAA	6.500	05/15/13	18,150,000	17,413,057	17,450,136
FHA Mortgage Loans	AAA	6.000	06/01/97	817	817	786
VA Mortgage Loans	AAA	6.750	08/01/98	3,384	3,384	3,257
Total U.S. Government & Agency				$1,105,328,527	$1,063,480,474	$1,056,856,999
Total Combined Fixed-Income Portfolio				**$1,492,155,386**	**$1,458,759,164**	**$1,445,799,331**

Combined Short-Term Portfolio

Description	Rating	Coupon	Mature Date	Par Value	Book Value	Market Value
Cash Equivalents:						
Abbott Laboratories	P-1	5.320	07/29/96	$ 10,000,000	$ 9,958,622	$ 9,958,622
Abbott Laboratories	P-1	5.330	07/26/96	10,000,000	9,962,986	9,962,986
Abbott Laboratories	P-1	5.330	07/25/96	10,000,000	9,964,467	9,964,467
Abbott Laboratories	P-1	5.330	08/02/96	8,000,000	7,962,098	7,962,098
American Express Credit Corp.	P-1	5.280	07/01/96	10,000,000	10,000,000	10,000,000
American Express Credit Corp.	P-1	5.280	07/10/96	6,520,000	6,511,394	6,511,394
American Express Credit Corp.	P-1	5.310	07/12/96	2,689,000	2,684,637	2,684,637
American Express Credit Corp.	P-1	5.350	08/05/96	2,966,000	2,950,573	2,950,573
Associates Corp. of North America	P-1	5.270	07/05/96	9,636,000	9,630,358	9,630,358
Associates Corp. of North America	P-1	5.340	07/24/96	6,805,000	6,781,784	6,781,784
Associates Corp. of North America	P-1	5.360	07/23/96	8,115,000	8,088,419	8,088,419
Associates Corp. of North America	P-1	5.380	08/01/96	7,571,000	7,535,925	7,535,925
Associates Corp. of North America	P-1	5.380	07/30/96	6,866,000	6,836,244	6,836,244
Associates Corp. of North America	P-1	5.380	08/02/96	11,267,000	11,213,119	11,213,119
Banc One Corporation	P-1	5.300	07/16/96	10,000,000	9,977,917	9,977,917
Banc One Corporation	P-1	5.300	07/11/96	9,440,000	9,426,102	9,426,102
BellSouth Telecommunication, Inc.	P-1	5.360	08/06/96	5,000,000	4,973,200	4,973,200
Coca-Cola Company	P-1	5.230	07/09/96	5,204,000	5,197,952	5,197,952
Coca-Cola Company	P-1	5.260	07/15/96	11,027,000	11,004,444	11,004,444
Federal Farm Credit Bureau	AAA	5.380	07/01/96	23,720,000	23,720,000	23,720,000
Federal Home Loan Mortgage Assn.	AAA	5.250	07/03/96	11,940,000	11,936,517	11,936,517
Federal Home Loan Mortgage Assn.	AAA	5.380	07/01/96	25,000,000	25,000,000	25,000,000
Federal National Mortgage Assn.	AAA	5.300	07/12/96	7,800,000	7,787,368	7,787,368
Ford Motor Credit Corp.	P-1	5.230	07/01/96	5,896,000	5,896,000	5,896,000
Ford Motor Credit Corp.	P-1	5.270	07/02/96	10,000,000	9,998,536	9,998,536
Ford Motor Credit Corp.	P-1	5.290	07/08/96	5,927,000	5,920,903	5,920,903
Ford Motor Credit Corp.	P-1	5.340	07/18/96	13,576,000	13,541,766	13,541,766
Ford Motor Credit Corp.	P-1	5.370	07/16/96	8,000,000	7,982,100	7,982,100
Ford Motor Credit Corp.	P-1	5.380	08/06/96	12,000,000	11,935,440	11,935,440
Gannett Company	P-1	5.250	07/08/96	13,488,000	13,474,231	13,474,231
Gannett Company	P-1	5.260	07/10/96	6,169,000	6,160,888	6,160,888
Gannett Company	P-1	5.300	07/18/96	8,900,000	8,877,725	8,877,725

Investment Portfolio (Continued)

Combined Short-Term Portfolio (Continued)

Description	Rating	Coupon	Mature Date	Par Value	Book Value	Market Value
Cash Equivalents: (Continued)						
Gannett Company	P-1	5.300	07/12/96	$ 10,000,000	$ 9,983,806	$ 9,983,806
Gannett Company	P-1	5.330	07/19/96	14,000,000	13,962,690	13,962,690
General Electric Capital Corp.	P-1	5.260	07/03/96	10,000,000	9,997,078	9,997,078
General Electric Capital Corp.	P-1	5.270	07/09/96	10,000,000	9,988,289	9,988,289
General Electric Capital Corp.	P-1	5.290	07/10/96	5,000,000	4,993,388	4,993,388
General Electric Capital Corp.	P-1	5.370	07/31/96	12,426,000	12,370,394	12,370,394
General Electric Capital Corp.	P-1	5.380	08/05/96	15,000,000	14,921,542	14,921,542
Great Lakes Chemical Corp.	P-1	5.270	07/03/96	5,000,000	4,998,536	4,998,536
Great Lakes Chemical Corp.	P-1	5.280	07/01/96	5,000,000	5,000,000	5,000,000
Great Lakes Chemical Corp.	P-1	5.300	07/12/96	5,000,000	4,991,903	4,991,903
Great Lakes Chemical Corp.	P-1	5.320	07/15/96	7,000,000	6,985,518	6,985,518
Great Lakes Chemical Corp.	P-1	5.340	07/25/96	5,000,000	4,982,200	4,982,200
Great Lakes Chemical Corp.	P-1	5.340	07/17/96	14,000,000	13,966,773	13,966,773
H.J. Heinz & Co.	P-1	5.340	07/22/96	21,181,000	21,115,021	21,115,021
H.J. Heinz & Co.	P-1	5.350	07/25/96	5,000,000	4,982,167	4,982,167
H.J. Heinz & Co.	P-1	5.350	07/29/96	7,000,000	6,970,872	6,970,872
H.J. Heinz & Co.	P-1	5.350	07/23/96	4,643,000	4,627,820	4,627,820
H.J. Heinz & Co.	P-1	5.380	07/31/96	6,000,000	5,973,100	5,973,100
J.C. Penney Funding Corp.	P-1	5.340	07/24/96	11,060,000	11,022,267	11,022,267
Norwest Corporation	P-1	5.260	07/01/96	9,000,000	9,000,000	9,000,000
Norwest Corporation	P-1	5.330	07/30/96	10,000,000	9,957,064	9,957,064
Norwest Corporation	P-1	5.340	07/26/96	10,000,000	9,962,917	9,962,917
Norwest Corporation	P-1	5.370	08/05/96	4,000,000	3,979,117	3,979,117
Norwest Corporation	P-1	5.370	08/01/96	20,000,000	19,907,517	19,907,517
PepsiCo, Inc.	P-1	5.250	07/08/96	5,000,000	4,994,896	4,994,896
Pitney Bowes Credit Corp.	P-1	5.330	07/23/96	9,089,000	9,059,395	9,059,395
Pitney Bowes Credit Corp.	P-1	5.340	07/19/96	5,900,000	5,884,242	5,884,242
Pitney Bowes Credit Corp.	P-1	5.360	08/07/96	10,000,000	9,944,911	9,944,911
Procter & Gamble	P-1	5.270	07/01/96	10,000,000	10,000,000	10,000,000
Procter & Gamble	P-1	5.280	07/11/96	10,000,000	9,985,333	9,985,333
Repurchase Agreement - J.P. Morgan	AAA	5.470	07/01/96	56,539,000	56,539,000	56,539,000
Rubbermaid, Inc.	P-1	5.330	07/17/96	7,000,000	6,983,418	6,983,418
Total Cash Equivalents				**$642,360,000**	**$640,922,889**	**$640,922,889**

Combined Stock Portfolio

Description	Shares	Book Value	Market Value
Common & Preferred Stocks:			
A T & T Corp.	161,600	$ 10,162,089	$ 10,019,200
Advanced Micro Devices, Inc.	41,000	741,546	558,625
Aetna Life & Casualty Co.	59,200	4,237,787	4,232,800
AGCO CP	47,000	1,412,820	1,304,250
AK Steel Holdings Corp.	32,500	1,339,872	1,271,563

Investment Portfolio (Continued)

Combined Stock Portfolio (Continued)

Description	Shares	Book Value	Market Value
Common & Preferred Stocks: (Continued)			
Allegheny Teledyne, Inc.	48,500	$ 1,020,149	$ 915,438
Allstate Corp.	146,500	5,923,716	6,684,063
Altera Corp.	20,900	1,018,862	794,200
Alumax, Inc.	53,700	1,850,771	1,631,138
Aluminum Co. Amer.	51,300	3,266,729	2,943,338
Ambac, Inc.	29,600	1,532,187	1,542,900
Amdahl Corp.	89,600	1,082,473	963,200
Amerada Hess Corp.	29,100	1,689,866	1,560,488
American Brands, Inc.	36,000	1,585,080	1,633,500
American General Corp.	45,500	1,595,104	1,655,063
American Home Product Corp.	90,200	4,882,701	5,423,275
American International Group, Inc.	74,400	6,897,567	7,337,700
American Stores Co. New	49,000	1,746,115	1,996,750
Amoco Corp.	53,000	3,899,316	3,822,625
Amp, Inc.	54,800	2,340,678	2,198,850
AMR Corp., Del.	59,300	5,451,801	5,396,300
Anheuser Busch Co., Inc.	26,500	1,815,277	1,987,500
Archer Daniels Midland Co.	350,400	6,664,324	6,701,400
Amstrong World Industries, Inc.	37,000	2,106,595	2,132,125
Asarco, Inc.	48,100	1,645,501	1,334,775
Ashland, Inc.	23,700	979,047	939,113
Atlantic Richfield Co.	45,600	5,478,270	5,392,200
Automatic Data Processing, Inc.	138,400	5,467,229	5,345,700
Banc One Corp.	103,000	3,729,899	3,502,000
Bank of Boston Corp.	35,200	1,775,312	1,742,400
Bankamerica Corp.	48,000	3,689,904	3,636,000
Bankers Trust NY Corp.	45,700	3,351,604	3,376,088
Barnett Banks, Inc.	30,000	1,897,440	1,830,000
Baxter International, Inc.	61,900	2,706,215	2,924,775
Bellsouth Corp.	71,000	2,917,035	2,982,000
Beverly Enterprises, Inc.	76,100	898,741	913,200
Boatmens Bancshares, Inc.	47,500	1,907,091	1,905,938
Boeing Co.	83,300	6,839,004	7,257,513
Boise Cascade Corp.	18,200	824,642	666,575
Bowater, Inc.	76,200	3,113,016	2,867,025
Brinker International, Inc.	161,100	2,748,083	2,416,500
Bristol Myers Squibb Co.	62,700	5,164,451	5,643,000
Browning Ferris Industries, Inc.	31,900	964,879	925,100
Burlington Coat Factory Warehouse	51,600	579,680	541,800
Burlington Industries, Inc.	78,200	988,948	1,104,575
Cardinal Health, Inc.	27,900	1,796,533	2,012,288
Caterpillar, Inc.	20,700	1,386,797	1,402,425
Champion International Corp.	24,600	1,171,993	1,027,050

Investment Portfolio (Continued)

Combined Stock Portfolio (Continued)

Description	Shares	Book Value	Market Value
Common & Preferred Stocks: (Continued)			
Chase Manhattan Corp New	138,000	$ 9,685,090	$ 9,746,250
Chelsea GCA Realty, Inc.	18,100	521,461	574,675
Chubb Corp.	120,000	5,654,317	5,985,000
Circus Circus Enterprises, Inc.	12,200	481,748	500,200
Cisco Sys, Inc.	131,900	7,435,823	7,468,838
Coca-Cola Co.	175,500	7,909,767	8,599,500
Coca-Cola Enterprises, Inc.	11,800	412,228	408,575
Colonial Properties TR	21,600	527,796	523,800
Coltec Industries, Inc.	105,000	1,378,075	1,496,250
Columbia/HCA Healthcare	56,000	3,065,888	3,003,000
Community Psychiatric Centers	92,900	914,508	882,550
Conrail, Inc.	85,100	6,074,322	5,648,513
Corestates Financial Corp.	14,900	589,986	573,650
Cummins Engine, Inc.	21,900	1,031,030	884,213
Cyprus Amax Minerals Co.	38,100	1,066,952	871,538
Dana Corp.	90,700	3,020,562	2,811,700
Dayton Hudson Corp.	27,700	2,722,467	2,856,563
Dean Witter Discover & Co.	68,000	3,914,284	3,884,500
Dial Corp New	89,300	2,617,026	2,556,213
Disney Walt Holding Co.	64,700	3,932,654	4,068,013
Dow Chemical Co.	72,000	6,135,820	5,472,000
EMC Corp. Mass	52,000	1,136,620	962,000
Eastman Kodak Co.	25,700	1,969,473	1,998,175
Edison International	61,000	994,910	1,075,125
Electronic Data Systems Corp.	56,200	3,152,421	3,020,750
Enron Oil & Gas Co.	19,000	472,950	529,625
Entergy Corp. New	286,000	7,913,111	8,115,250
Equitable Res., Inc.	34,700	1,046,655	980,275
Everest Reinsurance Holdings	81,100	1,971,154	2,098,463
Exxon Corp.	44,000	3,842,902	3,822,500
Federal Express Corp.	22,900	1,836,486	1,877,800
Federal Mogul Corp.	57,100	1,089,411	1,049,213
Federal National Mortgage Association	184,500	5,872,000	6,180,750
Federated Department Stores, Inc. DE	84,000	2,950,500	2,866,500
First Bk Sys, Inc.	24,900	1,476,864	1,444,200
First Chicago NBD Corp.	84,400	3,614,540	3,302,150
First Colony Corp.	34,100	933,453	1,057,100
First Data Corp.	8,400	667,170	669,900
First VA Bks., Inc.	20,100	815,566	804,000
Fleet Financial Group, Inc. New	29,800	1,337,573	1,296,300
FMC Corp.	54,100	3,644,290	3,530,025
Ford Motor Co. Del.	28,300	1,038,186	916,213
FPL Group, Inc.	44,000	1,927,156	2,024,000

Investment Portfolio (Continued)

Combined Stock Portfolio (Continued)

Description	Shares	Book Value	Market Value
Common & Preferred Stocks: (Continued)			
Gateway 2000, Inc.	35,000	$ 1,223,457	$ 1,190,000
General Electric Co.	48,000	3,793,392	4,164,000
General Motors Corp.	142,500	7,838,279	7,463,438
Geon Co.	49,800	1,422,288	1,120,500
Georgia Gulf Corp.	40,000	1,182,480	1,170,000
Gillette Co.	63,900	3,580,585	3,985,763
Goodrich BF Co.	75,000	2,878,875	2,803,125
Goodyear Tire & Rubber Co.	44,200	2,303,237	2,121,600
Great Lakes Chemical Corp.	49,000	3,155,453	3,050,250
GTE Corp.	55,000	2,450,140	2,461,250
Harrah's Entertainment, Inc.	24,100	824,980	680,825
Healthcare Compare Corp.	20,200	953,338	984,750
Hewlett Packard Co.	91,100	10,438,224	9,075,838
Honeywell, Inc.	18,500	985,501	1,008,250
Household International, Inc.	36,500	2,566,967	2,774,000
IBP, Inc.	115,000	3,233,324	3,176,875
Illinois Cent. Corp.	44,700	1,340,165	1,268,363
Illinois Tool Works, Inc.	16,800	1,148,591	1,136,100
IMC Global, Inc.	50,000	1,930,180	1,881,250
Informix Corp.	54,200	1,256,763	1,219,500
Intel Corp.	125,000	9,159,650	9,179,688
International Business Machines	76,100	8,257,845	7,533,900
James River Corp. VA	133,000	3,505,880	3,507,875
John Alden Financial Corp.	4,500	106,020	99,563
Johnson & Johnson	142,700	6,664,311	7,063,650
Kohls Corp.	14,500	511,701	531,063
Lilly Ely & Co.	76,600	4,377,246	4,979,000
Litton Industries, Inc.	36,800	1,750,824	1,600,800
Long Island Ltg. Co.	75,000	1,305,255	1,265,625
Lowes Cos., Inc.	68,100	2,382,206	2,460,113
Lyondell Petrochemical Co.	60,000	1,623,600	1,447,500
Macerich Co.	25,300	532,455	531,300
Mattel, Inc.	62,100	1,690,443	1,777,613
May Department Stores Co.	87,800	4,255,438	3,841,250
McDonalds Corp.	60,800	2,913,840	2,842,400
MCI Communications Corp.	154,500	4,498,088	3,959,063
Mead Corp.	23,100	1,266,111	1,198,313
Mellon Bank Corp.	22,900	1,268,683	1,305,300
Mirage Resorts, Inc.	10,400	566,337	556,400
Mobil Corp.	24,000	2,755,440	2,697,000
Molex, Inc.	16,000	481,501	470,000
Monsanto Co.	117,000	3,581,782	3,802,500

Investment Portfolio (Continued)

Combined Stock Portfolio (Continued)

Description	Shares	Book Value	Market Value
Common & Preferred Stocks: (Continued)			
Motorola, Inc.	44,000	$ 2,825,416	$ 2,761,000
Murphy Oil Corp.	49,200	2,267,185	2,232,450
Nationsbank Corp.	46,700	3,800,866	3,858,588
Niagara Mohawk Power Corp.	68,300	550,498	529,325
Northrop Grumman Corp.	18,000	1,206,576	1,226,250
Norwest Corp.	45,100	1,630,207	1,572,863
Nynex Corp.	35,400	1,661,371	1,681,500
Occidental Pete Corp.	88,500	2,374,484	2,190,375
Oracle Corp.	77,400	2,718,683	3,052,463
PP & L Res., Inc.	38,000	895,280	897,750
Pacific Gas & Electric Co.	29,200	676,642	678,900
Pacific Telesis Group	96,800	3,284,908	3,267,000
Pacificorp	80,300	1,630,893	1,786,675
Paine Webber Group, Inc.	28,500	624,891	676,875
Payless Shoesource, Inc.	23,000	599,150	730,250
Penney JC, Inc.	24,000	1,223,946	1,260,000
Pepsico, Inc.	231,800	7,743,244	8,228,900
Pfizer, Inc.	74,600	4,994,015	5,324,575
Pharmacia & Upjohn, Inc.	52,000	2,128,433	2,307,500
Philip Morris Cos., Inc.	136,800	12,609,896	14,227,200
Pier 1 Imports, Inc.	48,500	729,004	727,500
Pinnacle West Cap. Corp.	57,500	1,597,465	1,746,563
PNC Bk. Corp.	51,800	1,565,707	1,541,050
Potomac Electric Power Co.	145,900	3,853,425	3,866,350
PPG Industries, Inc.	19,000	976,999	926,250
Procter & Gamble Co.	55,700	4,868,960	5,047,813
Rayonier, Inc.	35,000	1,298,376	1,330,000
Raytheon Co.	41,000	2,185,136	2,116,625
Reebok International LTD	60,000	1,829,225	2,017,500
Reliance Group Holdings, Inc.	101,900	846,789	764,250
RJR Nabisco Holdings Corp.	144,600	4,516,224	4,591,050
Ryder Sys., Inc.	57,600	1,678,176	1,620,000
Sara Lee Corp.	79,700	2,619,978	2,590,250
Schering Plough Corp.	63,000	3,615,309	3,953,250
Seagate Technology	9,000	414,540	405,000
Sears Roebuck & Co.	52,000	2,638,116	2,528,500
Service Corp. International	7,100	396,176	408,250
South West Property Trust	38,500	530,701	514,938
Springs Industries, Inc.	22,700	1,028,616	1,140,675
Sprint Corp.	96,000	4,131,456	4,032,000
Stone Container Corp.	79,000	1,174,317	1,106,000
Sun Health Care Group, Inc.	15,700	233,170	223,725
Sun, Inc.	51,800	1,680,444	1,573,425

Investment Portfolio (Continued)

Combined Stock Portfolio (Continued)

Description	Shares	Book Value	Market Value
Common & Preferred Stocks: (Continued)			
Temple-Inland, Inc.	32,000	$ 1,606,368	$ 1,496,000
Tenneco, Inc.	61,000	3,430,762	3,118,625
Teradyne, Inc.	61,000	1,288,974	1,052,250
Texaco, Inc.	44,000	3,691,996	3,690,500
Texas Utils. Co.	85,000	3,532,005	3,633,750
Town & Country TR	38,800	535,828	509,250
Toys R US, Inc.	113,500	3,356,710	3,234,750
Travelers Group, Inc.	48,700	1,998,375	2,221,938
Tribune Co. New	42,000	3,023,160	3,050,250
Tupperware Corp.	39,600	1,575,367	1,673,100
U S West, Inc.	59,300	2,050,653	1,897,600
Unicom Corp.	170,700	4,915,294	4,758,263
Union Pac Group	30,000	2,095,830	2,096,250
Unocal Corp.	70,600	2,261,711	2,373,925
USX-Marathon Group	29,100	632,372	585,638
USX-U S Stl Group	31,100	1,009,358	882,463
Valero Energy Corp.	61,000	1,738,540	1,525,000
Viacom, Inc.	26,800	1,103,946	1,041,850
Warnaco Group, Inc.	31,500	912,949	811,125
Wellman, Inc.	22,600	542,806	528,275
Wells Fargo & Co.	9,600	2,326,578	2,295,600
Whirlpool Corp.	67,000	3,918,085	3,324,853
Woolworth Corp.	11,600	264,886	261,000
WR Grace & Co. New	75,600	5,788,220	5,358,150
Xilinx, Inc.	32,200	1,169,263	1,022,350
Total Common & Preferred Stocks	12,293,500	$ 527,665,738	$ 525,919,937

Description	Fund Units	Book Value	Market Value
Stock Commingled Funds:			
Cheasapeake Fund Super-Institutional	5,151,320	$ 80,000,000	$ 74,179,008
MSCI-EAFE International Fund	14,674,547	402,497,550	487,928,675
Growth Fund Class B	9,705,219	158,000,000	156,290,911
Russell Special Small Co. Fund	35,981,758	420,860,091	514,611,110
S&P 500 Flagship Fund	10,423,640	732,224,790	1,114,255,882
Total Stock Commingled Funds	75,936,484	$1,793,582,431	$2,347,265,586
Total Combined Stock Portfolio		**$2,321,248,169**	**$2,873,185,523**

Investment Portfolio (Continued)

Venture Capital Portfolio

Description	Par Value	Book Value	Market Value
Alpha Capital Fund II	$ 498,796	$ 498,796	$ 498,796
Brantley III	1,741,705	1,741,705	1,741,705
Cardinal Development Fund I	207,416	207,416	207,416
Morgenthaler Venture Partners II	2,246,498	2,246,498	2,246,498
Morgenthaler Venture Partners III	29,064,700	29,064,700	29,064,700
Morgenthaler Venture Partners IV	1,593,876	1,593,876	1,593,876
Primus Capital Fund I	402,626	402,626	402,626
Primus Capital Fund II	3,359,094	3,359,094	3,359,094
Total Venture Capital Portfolio	**$ 39,114,711**	**$ 39,114,711**	**$ 39,114,711**

Real Estate Portfolio

Description	Par Value	Book Value	Market Value
Brantley III	1,741,705	1,741,705	1,741,705
Cigna Open-End RE Account	$ 41,674,902	$ 41,674,902	$ 42,120,677
Hawaiian Properties	91,860	91,860	79,794
L&B SERBO Trust Fund	141,206,877	141,206,877	142,869,121
Monroeville Mall Mortgage Loan 8%	26,113,592	26,113,592	26,113,592
Morgan Guaranty Trust Co NY	55,624,048	55,624,048	51,941,017
Phoenix Homelife/CASA Group LLC	14,119,727	14,119,727	15,536,731
Sentinel Real Estate Fund	45,000,000	45,000,000	45,696,231
Total Real Estate Portfolio	**$ 323,831,006**	**$ 323,831,006**	**$ 324,357,163**
Total SERS Investment Portfolio		**$4,783,875,939**	**$5,323,379,617**

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 proxy voting; and to 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. Establish a proxy policy; and review proxy governance issues and reports from the Investment Staff and Investment Managers at least annually.

e. 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, including the proxy policy, 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. Vote proxies in accordance with the Retirement Board's policy and guidelines; and periodically prepare a report reflecting proxy voting activity.

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

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

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

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

4. Criteria For Investment Managers.

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

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

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

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

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

G. Review and Evaluation.

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

1. Quarterly.

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

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

2. Annually.

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

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

Purpose

The School Employees Retirement System of Ohio was established in 1937 by the state legislature to provide retirement and disability benefits for all non-certificated persons employed by the state's 757 school districts. This purpose is sustained by the member and employer contributions and the income realized from investment of those contributions.

Administration

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

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

Employer Participation

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

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

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

Employee Participation

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

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

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

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

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

Refund of Contributions

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

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

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

Service Retirement

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

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

3. Thirty years of service at any age.

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

Service Credit

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

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

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

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

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

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

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

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

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

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

Early Retirement Credit

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

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

Benefit Calculation

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

The benefit amount is calculated in this way:

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

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

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 or a court order.

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.

A 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 up to 3%, based on the Consumer Price Index. 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.