School Employees Retirement System of Ohio
Comprehensive Annual Financial Report
For The Year Ended June 30, 2000
Prepared by SERS Staff
Thomas R. Anderson, Executive Director

45 NORTH FOURTH STREET • COLUMBUS, OHIO 43215-3634 • www.ohsers.org

"The mission of SERS is to enhance the well-being and financial security of our members, retirees and beneficiaries through benefit programs and services which are soundly financed, prudently administered, and delivered with a focus on understanding and responsiveness."

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The Retirement Board

SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO

Seated: Mary Kasunic, Barbara Miller, Judy Kelley.
Standing: Earl Martin (Auditor Representative), Jeannie Knox,
Jim Winfree (Attorney General Representative), Barbara Overholser.

President:	**Barbara Miller,** Malvern, Ohio *Term Expires June 30, 2000*
Vice President:	**Mary Kasunic,** Wickliffe, Ohio *Term Expires June 30, 2000*
Employee-Member:	**Judy Kelley,** Akron, Ohio *Term Expires June 30, 2001*
Employee-Member:	**Jeannie Knox**, Cincinnati, Ohio *Term Expires June 30, 2003*
Employee-Member:	**Barbara Overholser,** Columbus, Ohio *Term Expires June 30, 2001*
ExOfficio Member:	**Betty Montgomery** *Attorney General*
ExOfficio Member:	**Jim Petro** *Auditor of State*

Thomas R. Anderson
Executive Director

Robert E. Hartsook
Deputy Director

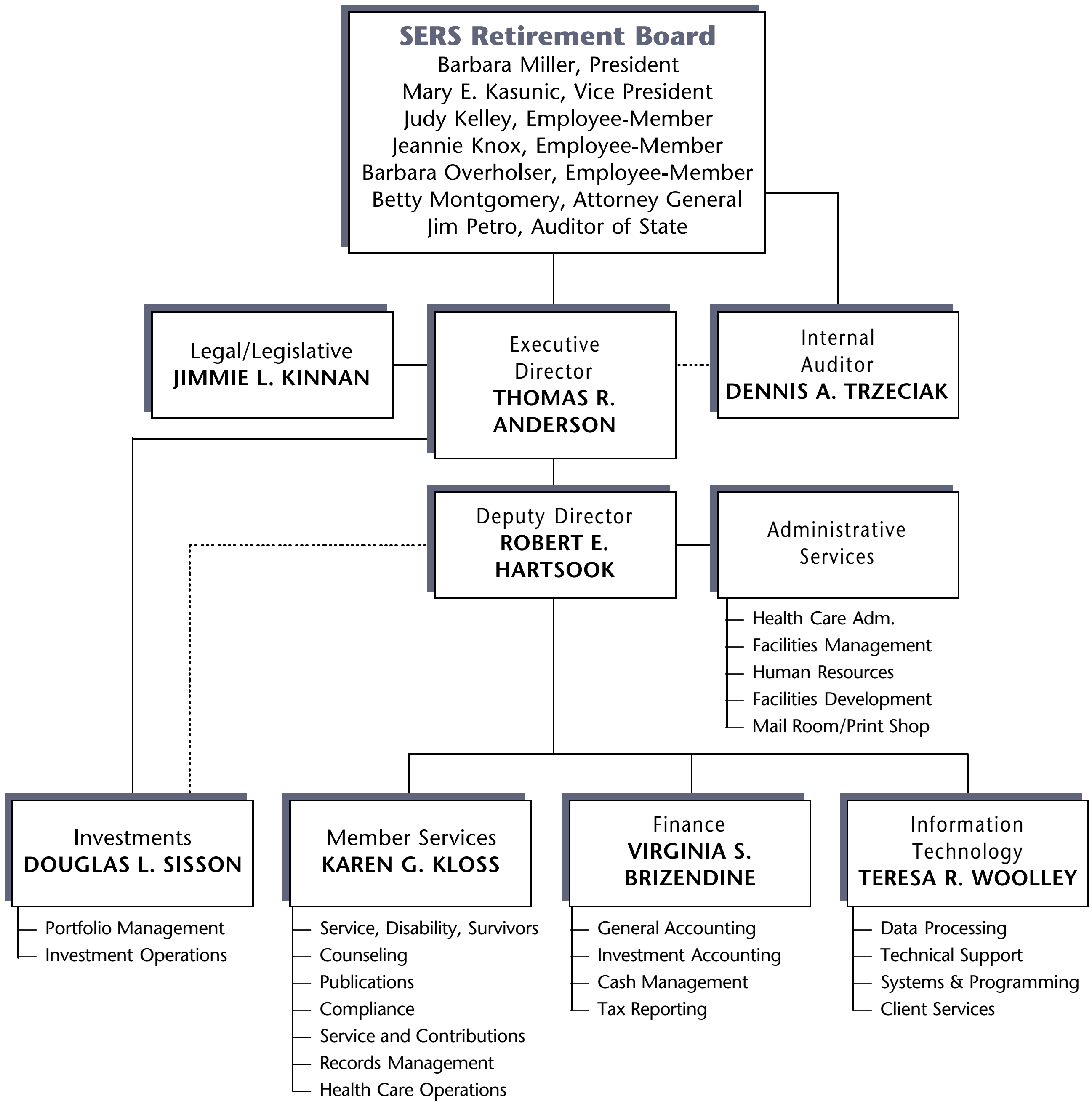
Directors:

Karen G. Kloss
Member Services

Virginia S. Brizendine
Finance

Douglas L. Sisson
Investments

Teresa R. Woolley
Information Technology



Professional Consultants

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

Independent Auditors
Deloitte & Touche LLP - Columbus, Ohio

Actuaries
Gabriel, Roeder, Smith & Co. - Roseville, California

Investment Consultant & Money Managers
See page 42

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, 1999

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

President

Executive Director

School Employees Retirement System

THOMAS R. ANDERSON
Executive Director

ROBERT E. HARTSOOK
Deputy Director

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VIRGINIA BRIZENDINE
Finance

JIMMIE L. KINNAN
General Counsel

KAREN G. KLOSS
Member Services

DOUGLAS L. SISSON
Investments

TERESA R. WOOLLEY
Information Technology

December 14, 2000

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, 2000. 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 auditors' report from our certified public accountants, Deloitte & Touche LLP, and the financial statements of the System;
- the Investment Section which includes the investment report and schedules of portfolio activity for the past year;
- 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; 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 defined benefit 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 61.

MAJOR INITIATIVES

State Senator Grace Drake introduced legislation on March 21, 2000 to provide benefit improvements for current and future SERS retirees and survivors. S.B. 270 included provisions to increase the retirement benefit formula from 2.1 to 2.2 percent for the first thirty years of service; along with a Medicare Part B reimbursement increase and survivor benefit enhancements. (For more details of S.B.70 please see p. 13.) The bill passed the Senate on May 23 and was sent to the House. The House amended the bill to include a 2% of payroll cap for each employer's surcharge and a statewide cap of 1.5% of payroll. Both caps had been approved by SERS' Board. The bill was voted out of the House on December 5, and agreed to by the Senate on December 6. The bill now awaits the signature of the Governor.

An independent actuarial audit was performed of SERS' June 30, 1999 actuarial valuation by Watson Wyatt. The scope of the audit was twofold: a technical review to determine the accuracy of the actuarial results and a professional peer review of the actuarial assumptions and cost methods used by Gabriel, Roeder, Smith in the actuarial valuation. The audit was performed in accordance with generally accepted actuarial principles. Based on the actuarial assumptions and methods adopted by the Board, it was the opinion of Watson Wyatt that the results of the June 30, 1999 actuarial valuation fairly present the actuarial status of SERS at that date. Watson Wyatt also made several recommendations and observations that the Board and Gabriel, Roeder, Smith will consider carefully in the next five-year review of actuarial assumptions and methodology.

In October 1999 we broke ground on our new building located in downtown Columbus. The ten-story building will include three floors leased to tenants and will be connected to a 500-car parking garage that will provide ample parking spaces for SERS visitors, tenants and employees. Construction remains on schedule and we expect to move to our new home in the summer of 2001.

INVESTMENTS

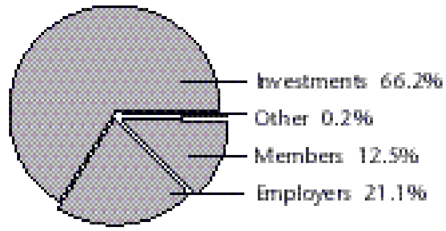
SERS invests accumulated funds to maximize both current income yield and long-term appreciation in accordance with the prudent person standard as found in Section 3309.15 of the Ohio Revised Code. The primary objective of our investment policy is to assure that the System meets its responsibilities for 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 33 through 48 of this report.

The fair value of the net investments of the System on an accrual basis was $8,899 million at June 30, 2000, an increase of $827 million from the previous year. Our portfolio returned 12.1% for the year ended June 30, 2000, exceeding our actuarial rate of return of 8.25%.

FINANCIAL HIGHLIGHTS

The financing of retirement and health care benefits is derived from employee and employer contributions and through investment earnings. Contributions and investment income for fiscal year 2000 totaled $1,435,955,794. This amount includes realized and unrealized investment gains and losses. The employee and employer contribution rates during fiscal 2000 remained unchanged from the prior year at 9% and 14%, respectively.

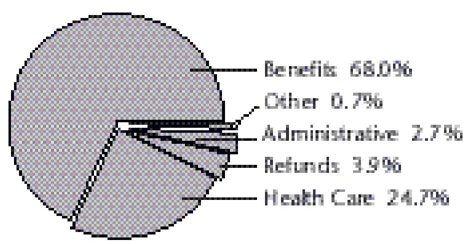
Additions to Plan Net Assets 2000 (millions of dollars)



	2000	1999	Increase	
Member Contributions	$ 179.6	$ 166.9	$ 12.7	7.6%
Employer Contributions	303.1	283.2	19.9	7.0
Investment Income (net)	950.0	865.3	84.7	9.8
Other	3.2	3.2	-	-
Total	$1,435.9	$1,318.6	$ 117.3	8.9%

Expenses are incurred primarily for the purpose for which SERS was created, the payment of benefits. Included in the total expenses for 2000 were benefit payments, refunds of contributions due to member terminations or deaths, transfers to other Ohio Systems to provide benefits for those members who had membership in more than one system, and administrative expenses. Expenses for fiscal year 2000 totaled $570,634,445, an increase of 4.3% over fiscal 1999 expenses. Although the health care expense increase remained in double digits, the percentage was less than 1999's increase of 12.9%. The major component of increases in health care expense continues to be the higher costs and usage of the mail order prescription drug plan.

Deductions from Plan Net Assets 2000 (millions of dollars)



	2000	1999	Increase	
Retirement Payments	$387.8	$380.9	$ 6.9	1.8%
Health Care Payments	140.7	126.4	14.3	11.3
Refunds	22.3	22.2	0.1	0.5
Administrative Expenses	15.7	14.5	1.2	8.3
Other	4.1	3.4	0.7	20.6
Total	$570.6	$547.4	$23.2	4.2%

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 2000 resulted in an increase in the fund balance of $865 million.

The actuarial valuation for funding purposes, for the year ended June 30, 2000, reflects assets in excess of the actuarial accrued liability for pension benefits of $181 million. For the first time in its history, the basic benefit program of SERS is fully funded. This is primarily due to continuing superior performance of SERS' investment program. Overall, the System realized a net actuarial gain of nearly $343 million from all sources.

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, which are funded on a pay-as-you-go basis. To provide additional funding for health care, employers pay a surcharge for members whose salary is less than a minimum amount.

Additional information regarding funding, including fiscal year 2000 contribution rates and amortization period, is provided within the Actuarial Section (pages 50 to 56) of this report.

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, 1999. This was the fifteenth consecutive year that SERS has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

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

Virginia S. Brizendine
Director - Finance

STATE LEGISLATION

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

H.B. 15 (Effective 11/3/99)

This legislation allows a member of SERS, PERS or STRS to purchase, by payroll deduction where provided by the employer, service credit refunded in one of the other two non-uniformed systems.

H.B. 186 (Effective 3/17/00)

This legislation authorizes SERS and PERS to deduct retiree association and organization dues and membership fees from benefit checks upon the written authorization of the benefit recipient. To qualify to receive the deduction, the entity must be comprised primarily of retired public employees and their spouses, and not fewer than five hundred SERS benefit recipients must initially authorize the deduction for that entity.

S.B. 144 (Effective 9/14/00)

This bill, which was introduced as a PERS benefit bill, was subsequently amended to include provisions affecting all five state retirement systems. The legislation, as passed, revises the reemployment laws governing members of SERS, PERS and STRS. A member of SERS, PERS or STRS who holds one or more contributing positions in one or more of those systems at the time of retirement may retire from the highest compensated position, combine all service credit for all positions to date of retirement, and continue to work in the other positions after retirement. After retirement, the member contributes to a reemployed retirement defined contribution annuity in the system(s) that cover the position(s) in which employment was continued. The legislation also provides, in certain circumstances, for a member of SERS who was forced to resign from contributing employment due to pregnancy or adoption of a child to purchase up to two years of service credit for the period.

S.B. 190 (Effective 7/13/00)

This legislation, which was introduced as a STRS benefit bill, was amended to include a provision authorizing SERS and the four other Ohio state retirement systems to establish and maintain qualified excess benefit plans in accordance with section 415(m) of the Internal Revenue Code.

The following significant legislation has been introduced and is pending:

H.B. 535 (Introduced 1/11/00)

This legislation would authorize domestic relations courts to issue a division of benefits order requiring SERS and the other four Ohio state retirement systems to make payments directly to a member's former spouse for the purpose of dividing marital property upon divorce. The payment is not due until the member begins to receive a monthly benefit or refund of contributions, is withheld from the payment(s) made to the member or retiree, and cannot reduce a retiree's monthly benefit below fifty percent. After introduction, the legislation was amended to clarify changes to reemployment laws enacted by S.B. 144, and to allow for transfer of service credit, pursuant to agreement, between any one of the Ohio state retirement systems and the Cincinnati Municipal Retirement System.

H.B. 655 (Introduced 4/11/00)

This legislation would provide that the annual cost of living adjustment for all five Ohio state retirement systems would be a fixed three percent. Current laws provide that the annual cost of living adjustment shall be equal to the percentage change in the consumer price index up to a maximum of three percent.

S.B. 270 (Introduced 3/21/00)

This legislation will provide benefit increases to current and future SERS retirees and survivors. It includes the following provisions:

- increase the retirement benefit formula from 2.1 to 2.2 percent for the first thirty years of service and increase the pension cap from ninety to one hundred percent of final average salary
- increase the Medicare Part "B" reimbursement from $31.80 to $45.50 per month
- provide a one-time, lump sum payment to eli-

gible Medicare-covered benefit recipients equal to the difference between $45.50 per month and the amount the individual was reimbursed since the latter of 1993 or the individual's Medicare eligibility date and the effective date of the bill

- Provide an enhanced survivor benefit where the deceased member had twenty or more years of service credit and remove the age fifty qualification requirement for a surviving spouse to begin receiving survivor benefits where the deceased member had ten or more years of service credit.

The legislation was amended to require SERS to offer a defined contribution plan option, and to require study of alternatives to the minimum compensation contribution made by employers to fund retiree health.

FEDERAL LEGISLATION

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

Social Security Offset and Windfall

H.R. 1217. This legislation, introduced on March 23, 1999 by Congressman Jefferson, would change the formula for calculation of the Social Security Offset. The legislation provides that the reduction in Social Security benefits that is required in the case of spouses who are also receiving certain government pensions shall be equal to the amount by which the combined monthly benefit before reduction exceeds $1,200. Where combined SERS and spousal Social Security benefits are $1,200 or less, there would be no reduction in the retiree's Social Security benefit. Senator Daschle and Senator Mikulski introduced S. 8 and S. 717, companion bills to H.R. 1217.

H.R. 860. This legislation, introduced on February 25, 1999 by Congressman Frank, would restrict the application of the Social Security Windfall Benefit Elimination provision. Where an individual's combined monthly benefit from Social Security and a governmental pension plan is $2,000 or less, there would be no reduction.

H.R. 742. This legislation, introduced on February 11, 1999 by Congressman Sandlin, would eliminate the Social Security Windfall Benefit Elimination provision.

Comprehensive Retirement Security and Pension Reform Act

H.R. 1102. This legislation, introduced on March 11, 1999 by Congressman Portman, would provide greater pension portability and increased contribution and benefit limits. The specific reforms in the legislation include the following: increase the maximum annual dollar contribution to Individual Retirement Accounts; increase the maximum annual deferral limit for Section 401(k) plans, Section 403(b) annuities and Section 457 plans; increase the annual benefit limit for defined benefit plans; increase the annual contribution limit for defined contribution plans; provide enhanced portability of assets between Section 403(b), Section 401(k) and Section 457 plans. H.R. 1102 was passed by the House of Representatives and, as of November, was awaiting Senate Floor action.

Patient Bill of Rights Act of 1999

H.R. 2723 and S. 1344 Legislation passed in the House and the Senate would provide certain rights to consumers of health care. S. 1344 was introduced by Senator Lott on July 8, 1999 and passed by the Senate on July 15, 1999. H.R. 2723, a bipartisan bill, was introduced by Congressmen Norwood and Dingell on August 5, 1999 and passed by the House on October 7, 1999. While both bills include provisions guaranteeing increased access to health care, only H.R. 2723 includes a provision granting patients harmed by denial of care decisions the right to sue health insurance providers.

Financial SECTION

INDEPENDENT AUDITORS' REPORT

Deloitte & Touche

Deloitte & Touche LLP
155 East Broad Street
Columbus, Ohio 43215-3611

Telephone: (614) 221-1000
Facsimile: (614) 229-4647

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
School Employees Retirement System of Ohio
Columbus, Ohio

We have audited the accompanying combining statements of plan net assets of the School Employees Retirement System of Ohio (the "System") as of June 30, 2000 and 1999 and the related combining statements of changes in plan net assets 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 auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits 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, the financial statements referred to above present fairly, in all material respects, the plan net assets of the System as of June 30, 2000 and 1999, and the changes in plan net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Deloitte Touche
Tohmatsu

INDEPENDENT AUDITORS' REPORT

Our audits were conducted for the purpose of forming an opinion on the basic financial statements of the System taken as a whole. The required supplementary information and additional information 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 of the System. This supplemental and additional information are the responsibility of the System's management. Such information has been subjected to the auditing procedures applied in our audits of the basic financial statements for the years ended June 30, 2000 and 1999 and, in our opinion, is fairly stated in all material respects when considered in relation to the basic 2000 and 1999 financial statements taken as a whole. The schedules of funding progress and employer contributions for the years ended June 30, 1995 through 1997 were reported on by other auditors whose reports stated that the schedules were fairly stated when considered in relation to the basic financial statements taken as a whole.

The statistical data on pages 58-60 are presented for the purpose of additional analysis and is not a required part of the basic financial statements of the System. Such additional information has not been subjected to the auditing procedures applied in our audit of the basic financial statements and, accordingly, we express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 8, 2000, on our consideration of the System's internal control structure and on its compliance with laws and regulations. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

December 8, 2000

COMBINING STATEMENTS OF PLAN NET ASSETS AS OF JUNE 30, 2000 AND 1999

	As of June 30, 2000		
Assets	**Pensions**	**Postemployment Health Care**	**Total**
Cash (note 4)	$ 3,678,589	$ 68,649	$ 3,747,238
Receivables:			
Contributions:			
Employers (note 3)	56,513,096	110,420,412	166,933,508
Employees (note 3)	14,616,924		14,616,924
State of Ohio subsidies	256,219		256,219
Accrued investment income	27,604,836	515,156	28,119,992
Investment sale proceeds	52,766,676	984,721	53,751,397
Total receivables	151,757,751	111,920,289	263,678,040
Investments, at fair value (note 2)	8,917,517,126	166,417,069	9,083,934,195
Invested security lending collateral (note 4)	675,433,281	12,604,812	688,038,093
Property and equipment, at cost (note 5)	11,824,733	220,671	12,045,404
Less accumulated depreciation	7,599,348	141,818	7,741,166
	4,225,385	78,853	4,304,238
Other assets (note 9)	32,193,805	600,795	32,794,600
Total assets	9,784,805,937	291,690,467	10,076,496,404
Liabilities			
Accounts payable and accrued expenses (note 8)	6,099,040	113,818	6,212,858
Investment commitments payable	261,467,631	4,879,461	266,347,092
Security lending collateral (note 4)	675,433,281	12,604,812	688,038,093
Health care benefits incurred and unpaid		21,784,071	21,784,071
Total liabilities	942,999,952	39,382,162	982,382,114
Net assets held in trust for pension and postemployment health care benefits	$ 8,841,805,985	$ 252,308,305	$ 9,094,114,290

(A Schedule of Funding Progress is presented on page 30)

See notes to financial statements

As of June 30, 1999

Pensions	Postemployment Health Care	Total
$ 1,554,961	$ 23,147	$ 1,578,108
67,983,024	90,073,200	158,056,224
11,857,844		11,857,844
303,714		303,714
39,738,947	591,560	40,330,507
62,477,126	930,044	63,407,170
182,360,655	91,594,804	273,955,459
8,177,965,768	121,738,414	8,299,704,182
11,670,627	173,731	11,844,358
6,877,300	102,377	6,979,677
4,793,327	71,354	4,864,681
4,812,084	71,633	4,883,717
8,371,486,795	213,499,352	8,584,986,147
4,135,376	61,588	4,196,934
326,528,352	4,860,750	331,389,102
	20,607,170	20,607,170
330,663,728	25,529,478	356,193,206
$ 8,040,823,067	$ 187,969,874	$ 8,228,792,941

COMBINING STATEMENTS OF CHANGES IN PLAN NET ASSETS FOR THE YEARS ENDED JUNE 30, 2000 AND 1999

	For the year ended June 30, 2000		
Additions	**Pensions**	**Postemployment Health Care**	**Total**
Contributions:			
Employers (note 3)	$ 116,055,089	$ 187,074,371	$ 303,129,460
Employees (note 3)	179,646,558		179,646,558
State of Ohio subsidies	256,219		256,219
Transfers from other Ohio systems	2,938,011		2,938,011
Total contributions	298,895,877	187,074,371	485,970,248
Investment income:			
Net appreciation in fair value of investments	647,967,019	12,700,688	660,667,707
Interest and dividends	234,308,800	4,592,646	238,901,446
Real estate income	71,186,210	1,395,308	72,581,518
	953,462,029	18,688,642	972,150,671
Investment expenses	(23,297,042)	(456,640)	(23,753,682)
Net income from investment activity	930,164,987	18,232,002	948,396,989
Income from security lending:			
Gross income	17,778,253	348,468	18,126,721
Brokers' rebates	(15,970,955)	(313,044)	(16,283,999)
Management fees	(249,279)	(4,886)	(254,165)
Net security lending income	1,558,019	30,538	1,588,557
Net investment income	931,723,006	18,262,540	949,985,546
Total additions	1,230,618,883	205,336,911	1,435,955,794
Deductions			
Benefits:			
Retirement	321,397,961		321,397,961
Disability	46,244,407		46,244,407
Survivor	18,315,432		18,315,432
Health care		140,696,340	140,696,340
Death	1,807,162		1,807,162
Total benefits	387,764,962	140,696,340	528,461,302
Refund of employee contributions	22,332,580		22,332,580
Administrative expenses	15,414,608	302,140	15,716,748
Transfers to other Ohio systems	4,123,815		4,123,815
Total deductions	429,635,965	140,998,480	570,634,445
Net increase	800,982,918	64,338,431	865,321,349
Net assets held in trust for pension and postemployment health care benefits:			
Balance, beginning of year	8,040,823,067	187,969,874	8,228,792,941
Balance, end of year	$ 8,841,805,985	$ 252,308,305	$ 9,094,114,290

See notes to financial statements.

For the year ended June 30, 1999

Pensions	Postemployment Health Care	Total
$ 143,217,951	$ 140,009,450	$ 283,227,401
166,864,847		166,864,847
303,714		303,714
2,866,920		2,866,920
313,253,432	140,009,450	453,262,882
641,860,394	10,763,820	652,624,214
161,594,266	2,709,891	164,304,157
63,229,997	1,060,349	64,290,346
866,684,657	14,534,060	881,218,717
(15,624,359)	(262,016)	(15,886,375)
851,060,298	14,272,044	865,332,342
851,060,298	14,272,044	865,332,342
1,164,313,730	154,281,494	1,318,595,224
317,125,829		317,125,829
44,116,363		44,116,363
18,127,793		18,127,793
	126,380,984	126,380,984
1,504,323		1,504,323
380,874,308	126,380,984	507,255,292
22,177,533		22,177,533
14,252,259	239,007	14,491,266
3,444,287		3,444,287
420,748,387	126,619,991	547,368,378
743,565,343	27,661,503	771,226,846
7,297,257,724	160,308,371	7,457,566,095
$ 8,040,823,067	$ 187,969,874	$ 8,228,792,941

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2000

1. Description of the System

Organization - The School Employees Retirement System of Ohio (SERS) is a cost-sharing multiple-employer defined benefit 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. SERS is not considered part of the State of Ohio financial reporting entity. Responsibility for the organization and administration of SERS is vested in the Retirement Board. 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	**2000**	**1999**
Local	372	370
City	192	193
Educational service center	60	61
Village	49	49
Technical	63	62
Community	51	17
College	2	2
Other	6	6
Total	795	760

Employee Members	**2000**	**1999**
Retirees and beneficiaries currently receiving benefits	57,824	56,632
Terminated employees entitled to but not yet receiving benefits	7,487	7,315
Total	65,311	63,947
Current Employees		
Vested	62,937	63,757
Non-vested	50,874	46,418
Total	113,811	110,175

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

NOTES TO FINANCIAL STATEMENTS (*continued*)

credited service. Members retiring with more than 30 years of service credit receive an increased benefit multiplier of 2.5% for each year of earned service in excess of 30 years. Death benefits of $1,000 are payable upon the death of a retiree to a designated beneficiary. 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.

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

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

Prior to July 1, 1986, all members receiving a benefit from SERS were eligible to receive health care benefits. Members who elect a service retirement 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, members retiring with less than 25 years of service credit were required to pay from 25% to 75% of the health insurance premium.

2. Summary of Significant Accounting Policies

Basis of Accounting — SERS' financial statements are prepared using the accrual basis of accounting. Member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan. Administration costs are financed by investment earnings.

Investments — Plan investments are reported at fair value. Fair value is "the amount that a plan can reasonably expect to receive for an investment in a current sale between a willing buyer and a willing seller." Fixed income securities and common and preferred stocks are valued based on published market prices and quotations from national security exchanges and securities pricing services. International stocks are then adjusted to reflect the current exchange rate of the underlying country. Securities which are not traded on a national security exchange, including real estate and venture capital, are valued by the respective fund manager or independent appraisers. Short term securities are valued at amortized cost, which approximates fair value.

NOTES TO FINANCIAL STATEMENTS (*continued*)

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

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. 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 2000, the allocation of the employer contribution rate to basic retirement benefits was established as the rate necessary to cover normal cost, plus the amortization of the unfunded actuarial accrued liabilities. The employer contribution rate (14%) is allocated 5.55% to basic benefits and the remaining 8.45% is allocated to health care benefits.

Employer and employee contributions required and made represented 14% and 9%, respectively, of active member payroll and amounted to $275.2 million and $176.9 million, respectively, in 2000. For basic benefits, the employer contributions consisted of $101.8 million for normal cost and $17.1 million for amortization of the unfunded actuarial accrued liability. Employee contributions are applied to normal cost. The employee contribution amounts in the financial statements include employee contributions for purchased service credit.

The minimum reserve for health care benefits equals 150 percent of annual health care expenses. Thus the target level for 2000 was $211.0 million, but the actual balance at June 30 was $252.3 million. The health care surcharge on employers is collected for employees earning less than an actuarially determined minimum pay,

NOTES TO FINANCIAL STATEMENTS (*continued*)

pro-rated according to service credit earned. For fiscal year 2000, the minimum has been established as $12,400. The surcharge accrued for fiscal year 2000 included in contribution revenue from employers in the Combining Statement of Changes in Plan Net Assets is $26.0 million.

4. 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 custodial credit 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, 2000, the carrying amount of SERS' deposits was $3,747,238 and the bank balances were $5,155,870. Of the bank balances, $200,000 was insured by the Federal Deposit Insurance Corporation. The remaining bank balances were covered by collateral held in the name of SERS' pledging financial institutions, as

The following investment summary identifies the level of custodial credit risk assumed by SERS as of June 30, 2000 (amounts expressed in thousands).

	Total Fair Value	Category 1	Category 2	Category 3	Non-Categorized
US government and agency obligations	$1,137,709	$ 843,393	$ -	$ -	$ 294,316
US corporate bonds & obligations	825,524	786,520			39,004
Non-US bonds	16,964	12,150			4,814
US equity	1,523,157	1,216,291			306,866
Non-US equity	502,531	502,531			
Repurchase agreements	100,400		100,400		
Overnight discount notes	232,913	232,913			
Real estate investment trusts	122,614	99,962			22,652
Private equity	143,950				143,950
Commingled funds					
US equity	2,851,295				2,851,295
Non-US equity	893,779				893,779
Real estate	733,099				733,099
Security lending collateral	688,038	679,947			8,091
Total investments and security lending collateral	**$9,771,972**	**$4,373,706**	**$100,400**	**$ -**	**$5,289,866**

NOTES TO FINANCIAL STATEMENTS (*continued*)

required by state statute. The carrying amount of deposits is separately displayed on the balance sheet as "Cash".

Investments — The Retirement Board (the Board) has the responsibility to invest available funds of the System, in accordance with applicable state law and the guidelines set forth by the Board. SERS does not hold investments in any one organization representing five percent or more of plan net assets.

Ohio Revised Code Section 3309.15 directs the Board to invest funds of the System following the "prudent person standard." This fiduciary standard dictates that the Board consider the probable safety of investments, avoid speculative investments, and invest as persons of prudence, discretion, and intelligence would manage their own affairs. The Board accomplishes this through a combination of internal and external investment professionals.

The chart on page 25 is prepared in accordance with Statement No. 3 of the Governmental Accounting Standards Board, and shows SERS' investments categorized to give an indication of the level of custodial credit 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.

Non-US Securities — The System invests in the securities of non-US developed and undeveloped countries. The objective of these investments is to obtain the highest total return consistent with a reasonable degree of risk for this asset class. These investments are diversified by investment style, country, capitalization range and economic sector. Managers may occasionally use futures contracts, in the major non-US equity markets, to facilitate trading and temporarily invest cash.

Derivatives — Derivatives can be defined as investment instruments whose cash flows or fair values are derived from the value of some other asset or index. SERS uses a variety of derivatives primarily in an effort to maximize yields and offset volatility due to interest rate and currency fluctuations. The System is exposed to various types of credit, market and legal risks related to these investments. Investment staff monitors these types of investments with extreme care and is not aware of any undue risks at this time.

Forwards — Forward currency contracts are legal agreements between two parties to purchase and sell a foreign currency, for a price specified at the contract date, with delivery and settlement in the future. SERS enters into these contracts to hedge the foreign currency movements of assets held in the underlying funds. The System hedges 50% of the fair value of its assets in non-US developed countries. As of June 30, 2000, SERS had outstanding contracts in the amount of $605,492,168 which had a maturity date of September 6, 2000, and net gains on rejoined contracts of $9,670,672 for the fiscal year.

Futures — Futures are contracts between two parties to transfer some commodity in the future and are executed in formal commodities exchange markets. Normally, these contracts do

NOTES TO FINANCIAL STATEMENTS (*continued*)

not result in delivery of these said commodities, as futures have no formal settlement process. Rather, the gains/losses resulting from these transactions are transferred between the parties on a daily basis and collateral of 5% of the anticipated fair value is required as a good faith agreement. The System uses only the most liquid equity futures to directly hedge the temporary and transactional cash held in domestic equity portfolios in an effort to obtain an equity return for the entire equity allocation. As of June 30, 2000, SERS held S&P 500 and Russell 2000 index futures in the amount of $23,132,040 with an expiration date of September 16, 2000 and a realized net loss of $3,368,055 during the fiscal year.

The System also held fixed income futures at year-end. US Treasury Bond/Note Futures in the amount of $12,588,063 with an expiration date of September 29, 2000 had a realized net gain of $842,886 during the fiscal year.

Other — The System also has investments in various types of fixed income securities for which we do not hold the underlying securities. Funds are invested in mortgage-backed, asset-backed, interest-only strips, principal-only strips and adjustable-rate securities. These securities serve to maximize yields and to offset volatility in the fund due to interest rate fluctuations. The fair value of these securities totaled $968,054,761 at June 30, 2000, representing 10.7% of the fair value of all investments.

Security Lending — SERS participates in two security lending programs, as authorized by Board policy. SERS receives prorated income from participation in the security lending programs of several commingled funds. SERS has no direct responsibility for these programs and the collateral held by these security lending programs is not held in SERS' name. Total net proceeds from these commingled funds was $995,771 during fiscal year 2000.

In December 1999 SERS initiated a security lending program for the System's direct US security investments using a third-party lending agent. Securities are transferred to independent brokers/dealers in exchange for cash collateral equal to approximately 102% of the market value of the securities on loan, with a simultaneous agreement to return the collateral for the same securities in the future. SERS continues to recognize ownership of the loaned securities in the financial statements. At the same time, SERS records a liability for the collateral held by the system in the security lending program.

At June 30, 2000 SERS had no credit risk exposure on the security lending collateral because the collateral exceeded the value of the securities loaned. Securities on loan at year-end totaled $686,298,376 and total collateral held for those securities was $688,038,093. Under the terms of the lending agreement, SERS is fully indemnified against loss for any losses that might occur in the program due to the failure of a broker to return a security that was borrowed.

Securities on loan can be recalled on demand by SERS or returned by the borrower at any time. There is no matching of the securities lent with the invested cash collateral. Cash collateral is invested in government and/or agency obligations or bank or corporate debt with limits on quality and duration of instruments that can be purchased. At June 30 the collateral portfolio had an average weighted maturity of 51 days.

NOTES TO FINANCIAL STATEMENTS (*continued*)

Commitments — As of June 30, 2000, outstanding commitments related to the real estate and venture capital investment portfolios totaled $140,461,029.

5. Property and Equipment (Non-Investment Assets)

A summary of property and equipment at June 30 follows:

	2000	1999
Land	$ 1,178,055	$ 1,178,055
Building and improvements	4,299,591	4,299,591
Furniture and equipment	6,567,758	6,366,712
	12,045,404	11,844,358
Less accumulated depreciation	7,741,166	6,979,677
	$ 4,304,238	$ 4,864,681

6. 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 (IRC) 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.

IRC Section 457 requires that the amount of compensation assets deferred under a plan, all property and rights, and all income attributable to those amounts, property, or rights be held in trust for the benefit of the participants. This insulates 457 benefits from the claims of an employer's general creditors. Accordingly, the employer does not include the deferred compensation assets or liabilities in its financial statements.

7. 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, 2000 was $5,711,394; SERS' total payroll was $5,997,385. SERS' contributions to PERS for the years ending June 30, 2000, 1999, and 1998 were $773,894, $682,648, and $619,609 respectively, equal to the required contributions for each year.

In addition to pension benefits, PERS provides postemployment 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, 1999, the plan had approximately 383,000 active participants.

A portion of each employer's contribution to PERS is set aside for the funding of postemploy-

NOTES TO FINANCIAL STATEMENTS (*continued*)

ment health care. The current rate is 4.2% of member covered payroll. For the year ended June 30, 2000, approximately $240,000 of employee payroll contributed by SERS to PERS was the portion used to fund health care. Net assets held in trust at December 31, 1999 for postemployment health care benefits were $11.2 billion.

The actuarial present value of accrued postemployment benefits was determined based on the entry age normal method of funding. Significant actuarial assumptions used in the December 31, 1998 valuation (most recent available) were: an investment rate of return of 7.75%, 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, no change in the number of active employees, base pay rate increases of 4.75% and annual pay increases over and above the 4.75% base increase ranging from .54% to 3.1%.

8. Compensated Absences

As of June 30, 2000, $550,332 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.

9. New Building

SERS is constructing a building for its new headquarters. Located in downtown Columbus, fifty million dollars has been allocated for the project which consists of a ten story office building and 500 car parking garage. The cost of the project is being capitalized and is included in Other Assets; $3.3 million for the acquisition of land and $10.9 million for the office building. Construction began in October 1999 and is scheduled for completion in July 2001.

10. Contingent Liabilities

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

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Funding Progress* (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
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
1997***	6,504	5,521	983	85	1,552	63
1998****	7,037	6,413	624	91	1,652	38
1999*****	7,535	7,332	203	97	1,768	11
2000	8,100	8,281	(181)	102	1,866	–

* The amounts reported in this schedule do not include assets or liabilities for postemployment health care benefits.
** Revised assumptions and asset valuation method.
*** Revised asset valuation method.
**** Legislated benefit increases.
***** Revised normal cost method.

Schedule of Employer Contributions*

Year Ended June 30	Annual Required Contributions	Percentage Contributed
1995	$ 128,603,843	100%
1996	150,103,657	100
1997	144,487,949	100
1998	139,955,108	100
1999	127,195,004	100
2000	98,148,589	100

* The amounts reported in this schedule do not include contributions for postemployment health care benefits.

NOTE TO REQUIRED SUPPLEMENTARY SCHEDULES

Description of Schedule of Funding Progress

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.

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

The information presented in the required supplementary schedules was determined as part of the actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation follows:

Valuation date: June 30, 2000
Actuarial cost method: Entry age normal
Amortization method: Closed basis as a level percent of active member payroll
Remaining amortization period: 25 Years
Asset valuation method: 4-Year smoothed market
Actuarial Assumptions:
Investment rate of return* - 8.25%
Projected salary increases* - 5.25% to 9.25%
Cost of living adjustments - 3% simple

*Includes inflation at 4.25%

SUMMARY OF INVESTMENT EXPENSES FOR THE YEAR ENDED JUNE 30, 2000

Description of Expense	Assets Under Management	Direct Fees
US equity	$ 4,411,873,512	$ 6,058,072
Fixed income	2,147,233,800	3,237,643
Cash equivalents	115,926,781	38,164
Private equity	130,265,343	1,845,743
Non-US equity	1,408,739,330	3,041,581
Real estate	869,895,763	7,432,445
Total investment management fees		21,653,648
Custodial fees		626,188
Investment consultant fees		576,397
Investment department administrative expenses (see note 2)		897,449
Total other investment expenses		2,100,034
Total investment expenses		$ 23,753,682

SCHEDULE OF PAYMENTS TO CONSULTANTS

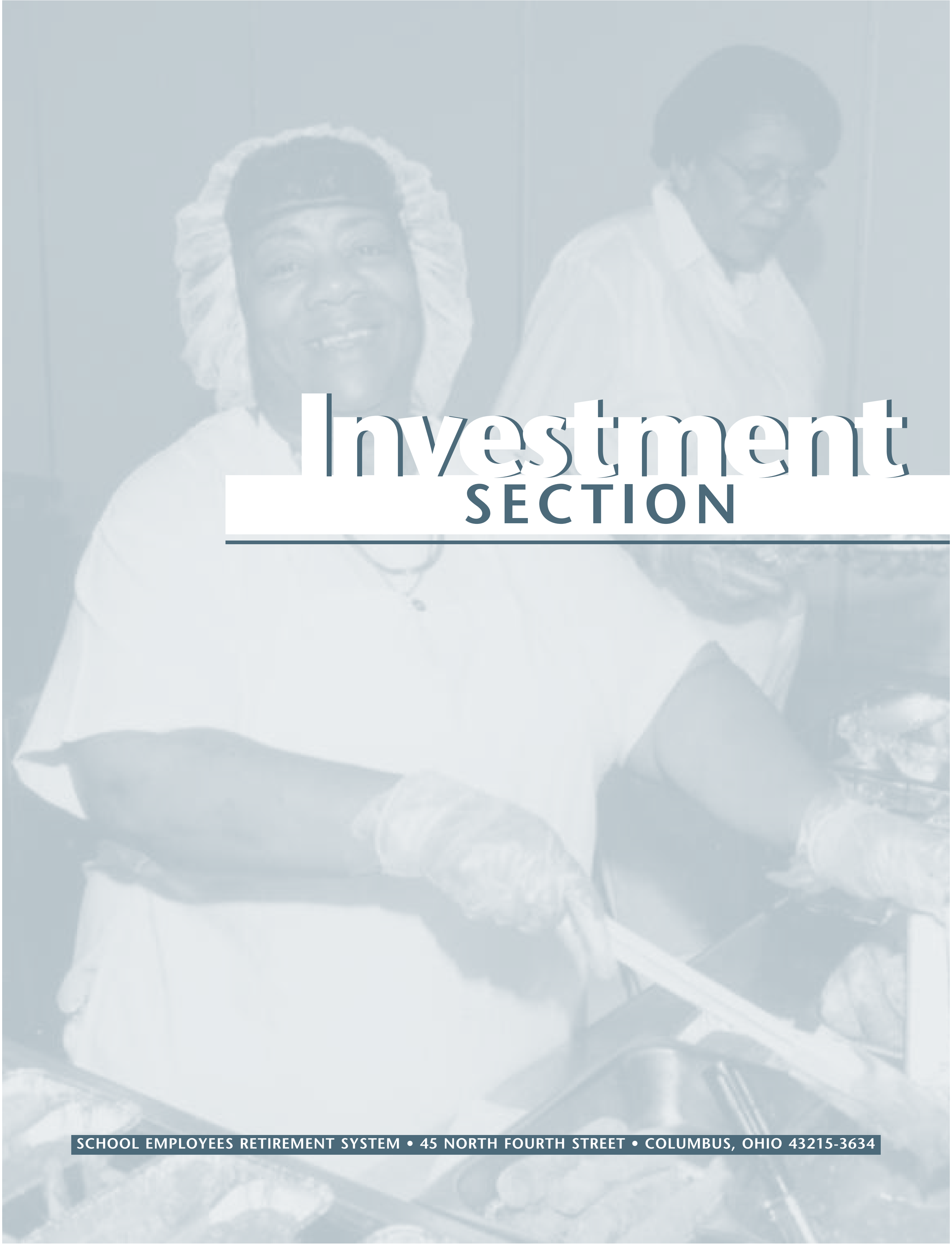
SERS paid the following consulting fees in fiscal 2000:

Actuarial	$ 99,919
Audit	67,500
Legal counsel	204,246
Medical consultant	22,044
Information technology consultants	65,202
Health care consultants	79,444
Other consultants	189,837
Disability exams	363,465
Expenses associated with disability exams	25,494
Total	$1,117,151

Schedule of Brokers' Fees is presented on page 43.

ADMINISTRATIVE EXPENSES
FOR THE YEARS ENDED JUNE 30, 2000 AND 1999

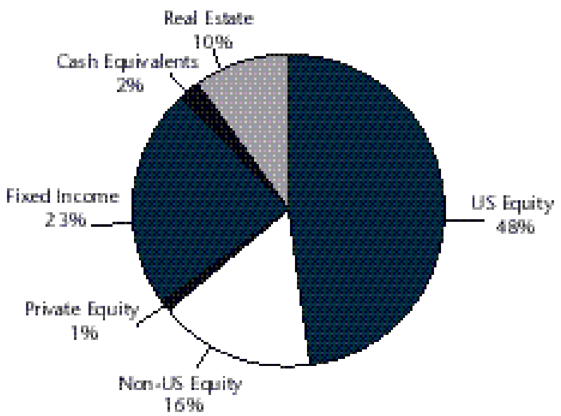
	2000	1999
Personnel Services		
Salaries	$ 5,509,142	$ 4,811,306
Retirement contributions	711,571	634,038
Insurance	588,640	569,887
Total personnel services	6,809,353	6,015,231
Professional Services		
Medical	411,003	403,050
Technical	538,729	456,904
Actuarial	99,919	79,800
Auditing	67,500	65,264
Total professional services	1,117,151	1,005,018
Communications		
Postage	439,785	566,243
Telephone	88,887	73,107
Retirement counseling services	34,975	42,997
Printing and publications	254,816	306,864
Total communications	818,463	989,211
Other Services		
Computer support services	4,918,334	4,234,226
Equipment repairs and maintenance	48,728	36,837
Building occupancy and maintenance	386,701	455,913
Supplies	90,837	116,886
Employee training	110,727	74,626
Transportation and travel	218,051	196,097
Equipment rental	36,172	25,698
Surety bonds and insurance	105,534	87,063
Memberships and subscriptions	42,808	51,586
Retirement study commission	45,871	31,862
Miscellaneous	42,464	52,890
Total other services	6,046,227	5,363,684
Total administrative expenses before depreciation	14,791,194	13,373,144
Depreciation (Non-Investment)		
Furniture and equipment	811,998	1,004,567
Building	113,556	113,555
Total depreciation	925,554	1,118,122
Total administrative expenses	$ 15,716,748	$ 14,491,266



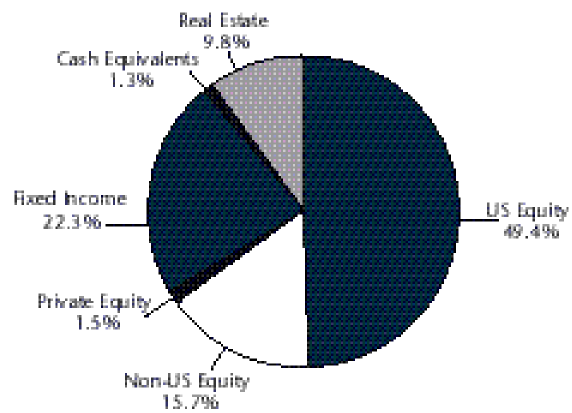
Investment
SECTION

INVESTMENT DISTRIBUTION AT FAIR VALUE AS OF JUNE 30, 2000

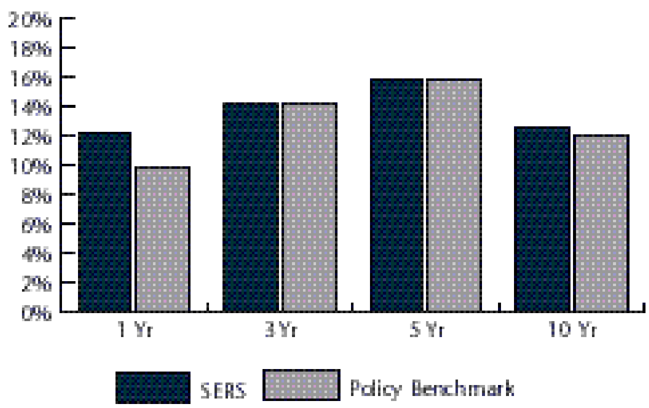
TARGET



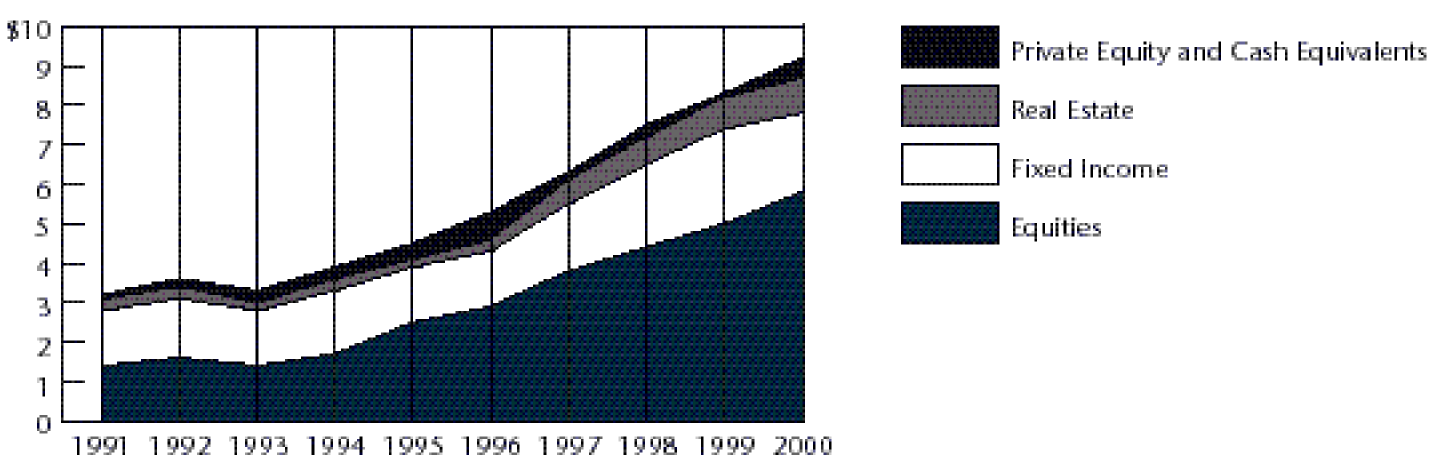
ACTUAL



INVESTMENT RATES OF RETURN vs. POLICY BENCHMARK



TEN YEAR INVESTMENT COMPARISON AT FAIR VALUE (IN BILLIONS)



INVESTMENT REPORT

The Board of the School Employees Retirement System (SERS) of Ohio has the responsibility of investing the assets of the fund solely for the benefit of its participants and beneficiaries. Section 3309.15 of the Ohio Revised Code and the Board-adopted Investment Policy govern the investment activity at SERS.

Investment Policy

During the most recent fiscal year, the Board made several significant changes to its Investment Policy. As a result of an asset/liability study completed at the beginning of fiscal year 2000, the following changes were made:

- US Equities increased to an allocation of 48% total assets (+3.0%)
- Non-US Equities increased to an allocation of 16% of total assets (+1.0%)
- Cash Equivalents increased to an allocation of 2% of total assets (+1.0%)
- Fixed Income decreased to an allocation of 23% of total assets (-3.0%)

Halfway through the year, one additional change was made. Venture Capital, which previously had an allocation of 1%, was increased to 3% of total fund assets. Additionally, the mandate changed to include all private equity investments on a global basis. The net 2% increase came from a gradual reduction in US Equities to 46% of total fund assets as of July 1, 2002.

Investment Objectives

The investment objective of the investment portfolio is to achieve investment returns, net of all management fees and other costs, which exceed the return on the investment policy portfolio. The June 30, 2000 policy portfolio includes:

- 48% US equities - Russell 3000 Index
- 16% Non-US equities - MSCI-All Country World Free Ex-US Index (hedged)
- 1% Private Equity - S&P 500 + 3%
- 23% Fixed Income - Lehman Bros. Aggregate Index
- 2% Cash Equivalents - 30-day Treasury Bill
- 10% Real Estate - NCREIF Property Index

Investment Strategies

Asset Allocation

Every three to five years, the Board conducts an asset allocation study. The results of the study guide the efficient allocation between asset classes to achieve the Board's overall return/risk objectives. This study was completed at the beginning of the fiscal year. The revised allocations were implemented by the investment staff.

Diversification

As noted earlier, SERS invests in several different asset classes. The idea of not "putting all of your eggs in one basket" captures the investment concept of diversification. Further, within most asset classes investments are made with many different investment management firms with different areas of specialization and expertise. A good example would be in US equities. Having a portfolio including both style (i.e. growth and value), and size (i.e. large and smaller companies), ensures exposure to all when some are out of favor.

As of June 30, 2000, SERS had hired or invested with 37 external firms in all of our asset classes. Specific, customized guidelines and contracts direct the investment activities of all firms and internal staff in the execution of the Board's investment policy.

Investment Results

Long-Term Investment Results

Results for the five-year period ending June 30, 2000 can be described as nothing less than extraordinary. The SERS earned an annualized total return, gross of investment fees of 15.7%. Driving the excellent performance was a US Equity market that has performed at high levels.

The table on the following page summarizes the results for the varying time periods against its investment policy benchmark for the fund and each of the asset classes.

Fiscal Year 2000 Results

For the fiscal year ending June 30, 2000, SERS' total fund returned 12.1%, gross of investment fees. The Board's investment policy benchmark was 9.7%, resulting in an outperformance of 2.4%. Strong performances in US equity and in private equity stand out as the most significant contributions to the outperformance relative to the policy benchmark.

SCHEDULE OF INVESTMENT RESULTS FOR THE YEARS ENDED JUNE 30

	2000	1999	1998	1997	1996	Annualized Rates of Return 3-Year	5-Year	10-Year
US Equity								
SERS	11.6%	18.7%	28.1%	29.6 %	25.0%	19.3%	22.4%	17.0%
Standard & Poor's 500 Index	7.4	22.7	30.3	34.8	26.1	19.8	23.9	17.8
Russell 3000 Index	9.6	20.1	28.8	30.6	26.0	19.2	22.8	17.5
Non-US Developed Markets Equity								
SERS	19.5	7.0	12.6	17.1	22.2	12.9	15.6	–
MSCI All Country World Free ex US, developed markets 50% hedged (3)	19.5	8.9	11.5	17.7	22.2	13.2	15.9	–
Non-US Emerging Markets Equity								
SERS	3.1	43.9	–	–	–	(3.4)	–	–
MSCI Emerging Markets Free Index	9.5	28.7	–	–	–	(5.0)	–	–
Fixed Income								
SERS	4.8	2.7	10.8	8.5	5.2	6.1	6.4	7.7
Lehman Bros. Aggregate Index	4.6	3.1	10.5	8.2	5.0	6.0	6.3	7.8
Real Estate								
SERS (1)	12.9	9.6	12.2	12.2	10.8	11.6	11.6	6.5
NCREIF Property Index (one quarter in arrears)	11.2	14.5	16.0	10.1	8.2	13.8	11.9	5.8
Short-Term								
SERS	5.6	4.9	5.6	5.5	5.8	5.4	5.5	5.2
Salomon Bros. 30 Day Treas. Bill Index	4.9	4.3	4.9	4.9	5.2	4.7	4.8	4.5
Private Equity								
SERS (1)	118.5	39.6	10.5	(24.5)	116.6	49.9	40.7	31.4
Standard & Poor's 500 Index + 300bps (2)	11.4	27.7	35.3	39.8	31.1	24.4	28.7	22.7
Total Fund								
SERS	12.1	12.1	18.6	19.0	16.8	14.2	15.7	12.5
Policy Benchmark (4)	9.7	13.7	19.3	20.1	16.4	14.2	15.8	12.0

Source: Russell/Mellon Analytical Services

All returns are reported gross of fees, unless otherwise indicated, using a time-weighted rate of return methodology based on the market rate of return in accordance with the Performance Presentation Standards of the Association for Investment Management and Research.

(1) reported net of fees prior to 7/1/1999

(2) prior to 1/1/2000, benchmark reported as Standard & Poor's 500 Index + 500bps

(3) prior to 12/31/1999 reported as 93.3% MSCI EAFE (50% hedged) and 6.7% MSCI EMF
prior to 7/1/1999 reported as 96.7% MSCI EAFE (50% hedged) and 3.3% MSCI EMF
prior to 8/1/1997 reported as MSCI EAFE (50% hedged)

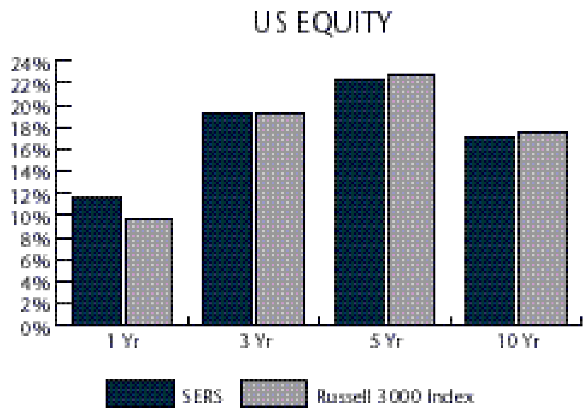
(4) Policy Benchmark as of 6/30/00 consists of: 48% Russell 3000, 16% MSCI AC World Free ex US (50% Hedged), 1% S&P 500 +300bps, 23% Lehman Brothers Aggregate, 10% NCREIF Property (1 qtr in arrears) and 2% Salomon Bros. 30 day T-bill.

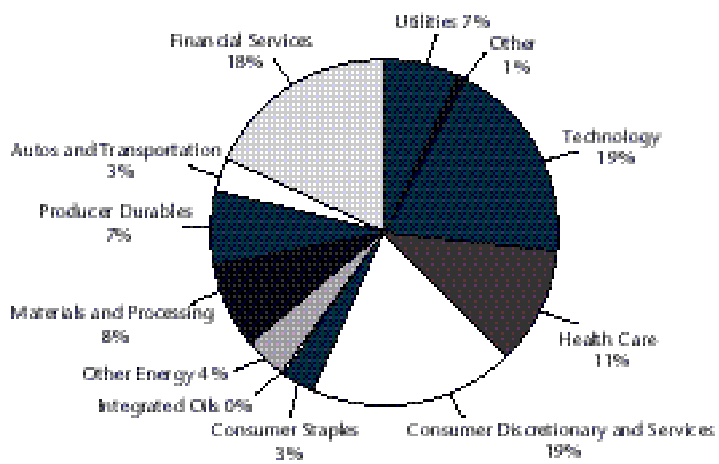
US EQUITIES

For the fiscal year ending June 30, 2000, SERS US equity portfolio returned 11.6%, outperforming its benchmark - the Russell 3000 Index - by 2.0%. On an annualized basis, the SERS US Equity portfolio has outperformed its benchmark for the past three years.

Equity markets left the euphoric returns of the late 1990's and entered the new millennium to an environment of thin liquidity, extreme volatility, and modest returns. Growth stocks outperformed value stocks by 29.3% among small cap stocks and 34.6% among large cap stocks during the fiscal year.

The SERS US Equity portfolio is by design both size and style neutral to the Russell 3000 Index. Based upon research that suggested that there were greater opportunities for active managers to generate excess returns in small cap equities rather than large cap equities, SERS began to shift funds towards active small capitalization managers and away from active large capitalization managers during the fiscal year. To maintain style neutrality in the active small capitalization portfolio, SERS hired a market-oriented manager and a growth style manager. A successful rebalancing late in the fiscal year kept the US Equity portfolio within its policy active/passive mix. Staff also replaced a large capitalization, value manager early in the fiscal year.





LARGEST INDIVIDUAL US EQUITY HOLDINGS (excludes commingled funds)
as of June 30, 2000

	Description	Shares	Market Price	Fair Value
1	CISCO SYSTEMS, INC.	880,386	$ 63.56	$55,959,975
2	INTEL CORP.	334,298	133.69	44,691,631
3	GENERAL ELECTRIC CO.	834,440	52.38	43,703,795
4	PFIZER, INC.	571,308	48.00	27,422,760
5	APPLIED MATERIALS, INC.	288,525	90.63	26,147,578
6	E M C CORP.	329,940	77.00	25,405,380
7	ORACLE CORP.	254,200	84.06	21,368,815
8	MICROSOFT CORP.	236,000	80.00	18,880,000
9	JUNIPER NETWORKS, INC.	114,000	145.56	16,594,182
10	SUN MICROSYSTEMS, INC.	165,900	90.94	15,086,614

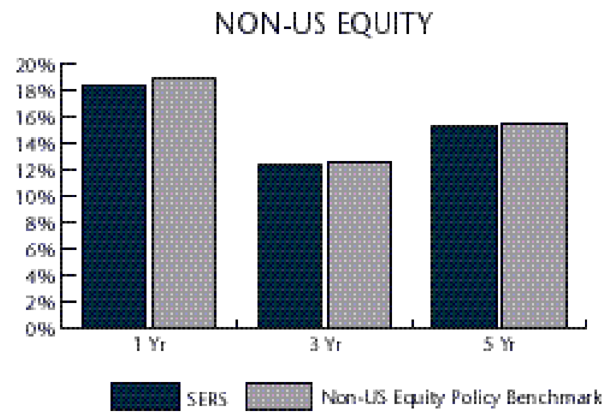
All monetary values stated in US dollars

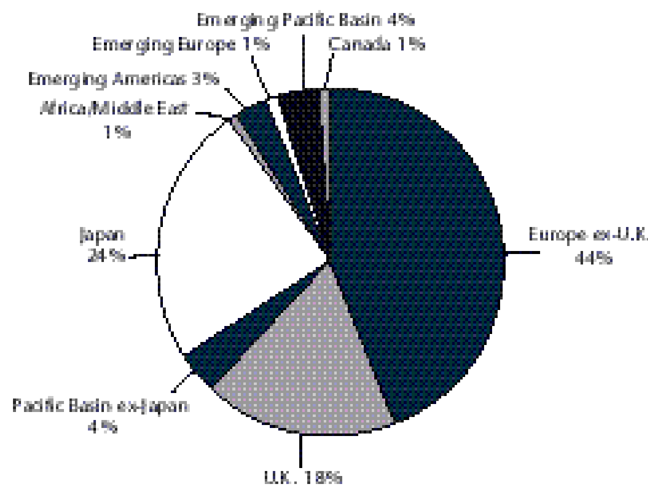
A complete listing of holdings is available upon request

NON-US EQUITIES

For the fiscal year ending June 30, 2000, SERS Non-US equity portfolio returned 18.4%, under-performing its hedged policy benchmark by 0.5%. SERS changed its non-US policy benchmark to the MSCI All Country World Free Excluding the US Index (developed markets 50% hedged) effective January 1, 2000. Returns in developed markets were almost twice as high as returns in emerging markets for the fiscal year.

SERS decided that greater market inefficiencies existed in non-US equities and reduced the minimum weight for passive investments to 55%. As with US equities, discretion was given to determine the composition of the active and passive portions of the portfolio based upon size and style. SERS also chose a new benchmark for the Non-US Equity Portfolio. The new benchmark, the MSCI All Country World Free Excluding the US, replaced the MSCI EAFE and MSCI EMF Indices. SERS' basic belief remains that we should maintain equity portfolios that closely reflect the characteristics of the markets in which we are investing. Therefore, the policy changes in non-US Equities effectively meant that this portfolio was underweighted in emerging markets with an unintentional tilt towards value in emerging markets. A London-based, growth-oriented emerging markets manager was hired in April 2000.





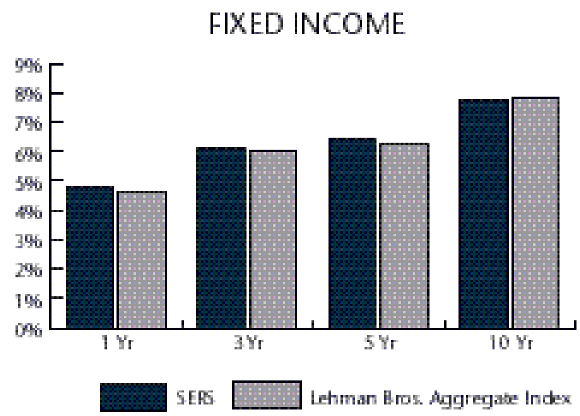
LARGEST INDIVIDUAL NON-US EQUITY HOLDINGS (excludes commingled funds)
as of June 30, 2000

	Description	Country	Shares	Market Price	Fair Value
1	AVENTIS S.A.	France	150,919	$ 72.99	$11,016,257
2	KONINKLIJKE KPN NV	Netherlands	229,960	44.73	10,286,658
3	VODAFONE	United Kingdom	2,450,433	4.06	9,940,710
4	MEDIASET	Italy	585,963	15.28	8,951,640
5	NTT DOCOMO	Japan	319	27,069.84	8,635,279
6	SIEMENS AG	Germany	56,897	150.38	8,556,228
7	HITACHI	Japan	589,000	14.43	8,499,835
8	NORTEL NETWORKS CORP (CN)	Canada	112,282	69.42	7,794,047
9	VIVENDI	France	86,528	88.27	7,637,936
10	DIAGEO PLC	United Kingdom	838,784	8.95	7,510,082

All monetary values stated in US dollars

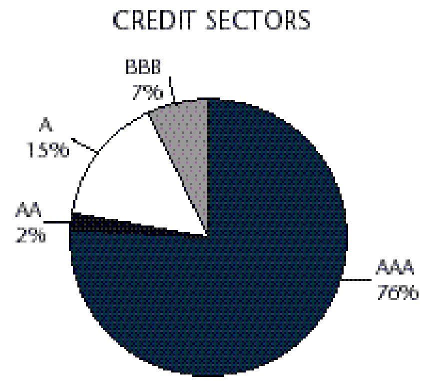
FIXED INCOME

The SERS Fixed Income portfolio outperformed the performance of its benchmark index, the Lehman Brothers Aggregate Index, for the fiscal year ending June 30, 2000. The portfolio returned 4.8% and the index returned 4.6%.

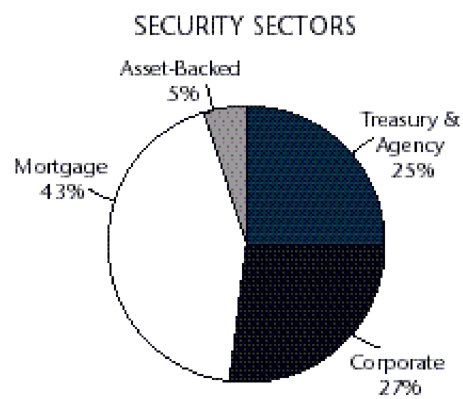


Our portfolio remains of high average quality with three-quarters of the securities in the highest rated credit category. The portfolio maintains a slightly lower allocation to Treasury and Agency securities and a higher allocation to mortgage and corporate sectors than the benchmark index.

During the year, the historical yield curve changed from a normal upward slope to a downward or inverted slope. This made the work of managing bonds very difficult. Erratic up and down swings in yield spreads between non-Treasury and Treasury bonds were brought on first by the Y2K concerns, and then by the introduction of a Treasury bond repurchase program. This phenomenon required bond managers to be extremely skilled in their predictions of and reactions to the rapid market changes. In addition, both actual Fed action and the speculation about future Fed action added to instability in interest rates.



At the beginning of the fiscal year, our manager guidelines were changed, allowing investments in "BBB"-rated and "Yankee" bonds, sectors already included in the benchmark index. During the coming fiscal year, we intend to review the structure of the fixed income portfolio. Additional ways to add risk-adjusted incremental return to our portfolio may include opportunities in high-yield bonds, non-US bonds and emerging market debt.



LARGEST INDIVIDUAL FIXED INCOME HOLDINGS AS OF JUNE 30, 2000

	Description	Rating	Coupon	Date	Par Value	Market Price	Fair Value
1	Treasury Note Inflation Adjusted	AAA	3.625	04/15/2028	$55,730,000	$100.952	$56,260,313
2	Treasury Note	AAA	5.875	11/15/2004	47,175,000	98.547	46,489,547
3	FNMA TBA	AAA	6.000	07/01/2030	46,490,000	91.469	42,523,822
4	FHLMC TBA	AAA	6.500	07/01/2030	29,710,000	94.313	28,020,244
5	Treasury Note Inflation Adjusted	AAA	3.875	04/15/2029	26,165,000	103.813	27,162,559
6	Treasury Bond	AAA	8.000	11/15/2021	20,925,000	120.891	25,296,442
7	Treasury Note Inflation Adjusted	AAA	3.875	01/15/2009	19,250,000	102.790	19,786,990
8	FHLMC Series 2125-TB	AAA	6.000	10/15/2008	20,000,000	96.968	19,393,600
9	FHLMC Series 1693-H	AAA	6.000	12/15/2008	20,000,000	96.000	19,200,000
10	GNMA TBA	AAA	6.000	07/01/2030	20,250,000	92.094	18,648,984

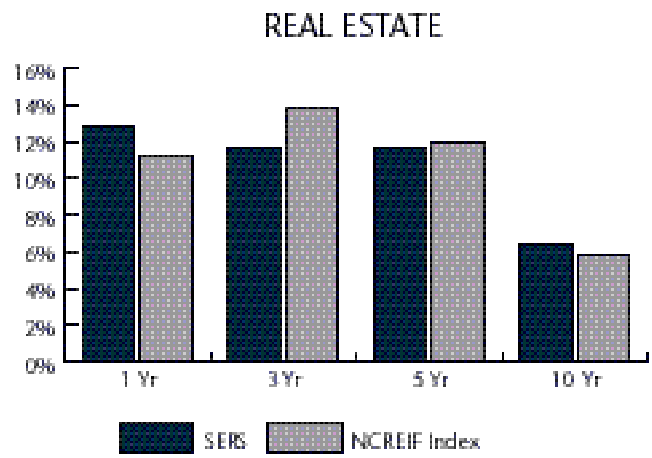
All monetary values stated in US dollars

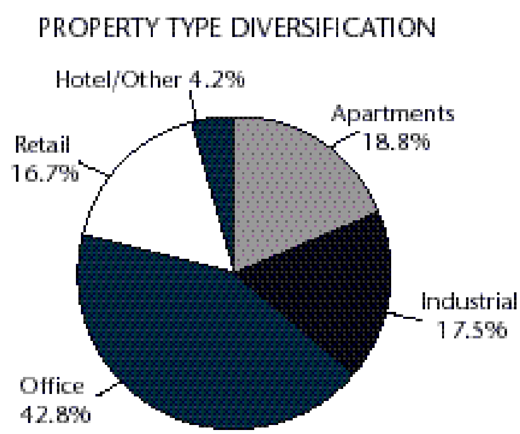
REAL ESTATE

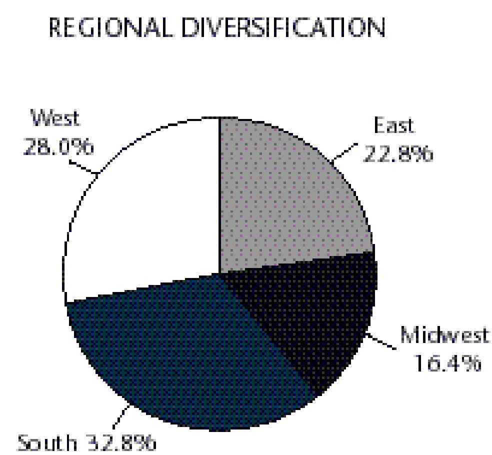
SERS invests in real estate to provide stable long-term rates of returns and to diversify its assets in order to reduce total fund volatility. The real estate portfolio consists primarily of investments in office buildings, shopping centers, apartment communities, and industrial parks as well as shares of publicly traded real estate investment trusts (REITs). Two new real estate partnership investments were completed during the year.

For fiscal 2000, the NCREIF Property Index, a barometer of private US real estate returns, had a total return of 11.2%. Continued strength in the US economy and a slowdown in development resulted in a year of relative equilibrium in real estate markets.

During fiscal 2000, the SERS' real estate portfolio produced a total return of 12.9%. For three-, five-, and ten-year periods, the real estate portfolio produced returns of 11.6%, 11.6%, and 6.5% respectively.



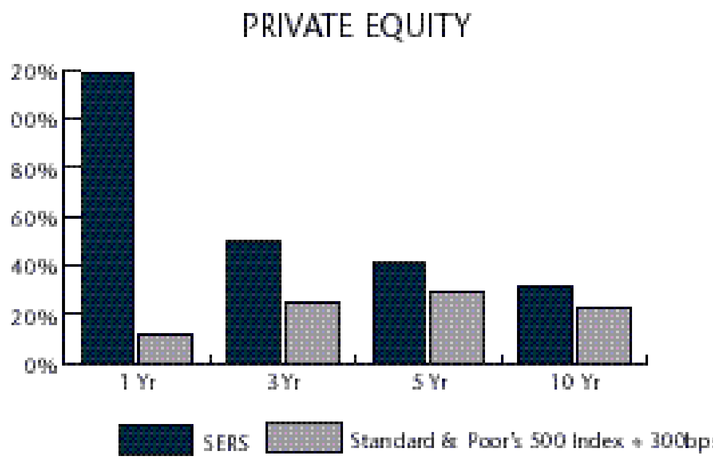




PRIVATE EQUITY

SERS invests in private equity to provide returns in excess of those provided by stocks, bonds, and real estate. Private equity consists of investments in venture capital, buyout limited partnerships, and other "non-public" investments. Private equity also includes investments in fund-of-funds, which invest in a diversified portfolio of venture capital, buyout limited partnerships, and other non-public investments.

During fiscal 2000 SERS brought to conclusion an examination of potentially widening its focus in private equity. Before March 1997, SERS was limited by statute to investments with venture capital firms headquartered in Ohio. During fiscal 2000, the Board approved the widening of the universe to include any private investments on a global basis. The strategy for expanding into these new markets will be implemented primarily through the use of fund-of-funds investments. Finally, the Board increased the private equity allocation from 1% to 3% of total fund assets.



Investment Report prepared by Investment Department staff of SERS.

INVESTMENT CONSULTANT & MONEY MANAGERS

Investment Consultant

Frank Russell Company – Tacoma, Washington

Investment Managers – US Equities

Aronson + Partners – Philadelphia, Pennsylvania

Duncan-Hurst Capital Mgmt., Inc. – San Diego, California

Equinox Capital Management, Inc. – New York, New York

Fuller & Thaler Asset Management – San Mateo, California

Gardner Lewis Asset Management – Chadds Ford, Pennsylvania

Geewax, Terker & Co. – Phoenixville, Pennsylvania

Lincoln Capital Management Company – Chicago, Illinois

Lord, Abbett & Co. – Jersey City, New Jersey

MacKay Shields Financial Corporation – New York, New York

Oak Associates – Akron, Ohio

State Street Global Advisors – Boston, Massachusetts

Suffolk Capital Mgmt., Inc. – New York, New York

Investment Managers – Non-US Equities

Foreign & Colonial Emerging Markets – London, England

Oeschsle International Advisors – Boston, Massachusetts

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

State Street Global Advisors – Boston, Massachusetts

Investment Manager – Equity Futures

Bank of New York – New York, New York

Investment Manager – Foreign Currency

State Street Global Advisors – Boston, Massachusetts

Investment Managers – Private Equity

Alpha Capital Partners – Chicago, Illinois

Blue Chip Venture Company – Cincinnati, Ohio

Brantleys – Cleveland, Ohio

CID Equity Partners – Indianapolis, Indiana

Morgenthaler – Cleveland, Ohio

Primus Venture Partners – Cleveland, Ohio

Investment Managers – Fixed Income

BlackRock Financial Management - New York, New York

Dodge & Cox, Inc. – San Francisco, California

Johnson Investment Counsel, Inc. – Cincinnati, Ohio

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

Western Asset Management Company – Pasadena, California

Investment Managers – Real Estate

AEW Capital Management – Boston, Massachusetts

CB Richard Ellis Investors – Los Angeles, California

Clarion CRA Real Estate Securities – Radnor, Pennsylvania

INVESCO Realty Advisors – Dallas, Texas

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

Koll Bren Schreiber Realty Advisors – Newport Beach, California

L&B Realty Advisors – Dallas, Texas

Lend Lease Real Estate – New York, New York

Sentinel Real Estate – New York, New York

Times Square Real Estate Investors – Hartford, Connecticut

UBS Realty Advisors – Hartford, Connecticut

Master Custodians

Huntington National Bank – Columbus, Ohio

Bank of New York – New York, New York

SUMMARY SCHEDULE OF BROKERS' FEES FOR THE YEAR ENDED JUNE 30, 2000

Brokerage fees on US and non-US investment transactions for the fiscal year ended June 30, 2000 were $2,859,952 and $902,108, respectively. Separate lists of brokers receiving these fees during the year follow.

US TRANSACTIONS:

Broker Name	Fees Paid	# of Shares Traded	Avg. Price per Share
Paine Webber	$ 549,995	11,248,184	$0.049
Jefferies & Co.	479,536	14,970,200	0.032
Merrill Lynch Pierce Fenner	321,909	7,869,964	0.041
Instinet	210,999	7,526,887	0.028
Bear, Stearns	131,139	3,957,592	0.033
Donaldson, Lufkin & Jenrette	109,646	2,115,032	0.052
Lehman Brothers	91,727	3,018,503	0.030
ESI Securities	71,213	2,226,550	0.032
Cantor Fitzgerald & Co., Inc.	70,870	1,966,390	0.036
Salomon Smith Barney, Inc.	66,357	1,706,552	0.039
DB Clearing Services	64,341	1,940,463	0.033
BT Alex Brown	57,624	1,674,140	0.034
Prudential Securities, Inc.	52,449	1,225,088	0.043
Morgan Stanley	47,000	1,726,868	0.027
J.P. Morgan Securities	45,218	1,972,710	0.023
Goldman Sachs & Company	44,463	1,833,603	0.024
Credit Suisse First Boston Corp.	43,363	974,710	0.044
Bernstein	41,099	741,383	0.055
Spear, Leeds & Kellogg	36,340	979,850	0.037
Legg, Mason	27,146	602,212	0.045
Warburg Dillon Reed	25,633	463,600	0.055
Lewco Securities	23,811	529,600	0.045
Bancamerica Securities, Inc.	22,463	488,600	0.046
Brokers' fees less than $20,000 each	225,611	7,123,287	0.032
TOTAL - US	$2,859,952	$78,881,968	$0.036

NON-US TRANSACTIONS:

Broker Name	Fees Paid	# of Shares Traded	Avg. Price per Share
Merrill Lynch Pierce Fenner	$ 189,591	9,284,811	$0.020
Paribas Capital Market	63,780	587,134	0.109
Deutsche Bank	62,939	3,194,400	0.020
Salomon Smith Barney, Inc.	59,300	2,820,253	0.021
ABN AMRO Chicago Corporation	57,423	3,509,381	0.016
Credit Suisse First Boston Corp.	49,619	2,383,043	0.021
S.G. Warburg	42,550	3,828,021	0.011
J.P. Morgan Securities	36,375	1,016,258	0.036
HSBC Capital Markets	32,006	1,595,422	0.020
Goldman Sachs & Company	31,906	2,340,276	0.014
Dresdner Kleinwort Benson	31,016	822,629	0.038
Nomura Securities Int'l	30,668	1,317,104	0.023
SBC Warburg Dillon Read	28,837	827,194	0.035
Commerzbank	23,094	725,639	0.032
Lehman Brothers	21,032	970,657	0.022
Brokers' fees less than $20,000 each	141,882	4,926,247	0.029
TOTAL - Non-US	$902,018	40,148,469	$0.022
GRAND TOTAL	$3,761,970	167,027,185	$0.022

INVESTMENT POLICY

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, 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.

Background

The School Employees Retirement System of Ohio was established by the state legislature to provide retirement and disability benefits for all non-certificate holding 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.

Investment Objectives

1. Return Requirements

The Board realizes that its primary objective is to assure that the Fund meets its responsibilities for providing retirement and other benefits. 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:

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. Broad diversification of assets and careful review of risks will be employed toward this objective.

c. Competitive Results: To achieve investment results competitive with those of the broad market and of similar funds. Over the long term, the investment objective of the Fund is to meet or exceed the actuarial assumed rate of return.

2. Risk Tolerance

The Board believes that over the long-term there exists a relationship between the level of investment risk taken and rates of investment return realized. The Board further believes that the assumption of a moderate level of risk associated with investments is reasonable and justified in order to enhance potential long-term investment results. It shall always act to assure that the level of investment risk in the portfolio shall be prudent and shall not jeopardize the primary objective of assuring retirement and other benefits.

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 by what would be experienced by similar retirement systems.

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

INVESTMENT POLICY *(continued)*

Investment Constraints

1. 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.

2. Time Horizon

Retirement systems invest over the long term. The SERS time horizon is assumed to be 30 years.

3. Laws & Regulations

A seven-member board governs the System, 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.

4. Taxes

The SERS falls under IRS code 401(a) as a qualified retirement plan. Thus, under IRS code 501(a), SERS enjoys a tax-exempt status.

5. Unique Preferences and Circumstances

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.

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 the Investment Organization and Responsibilities section.

In fulfilling its fiduciary duties, the Retirement Board employs a competent and qualified Investment Staff. Investment Staff members are assigned oversight of professional external Investment Managers. These Investment Managers have expertise in the management of their specialized portions of SERS asset portfolio for which they are responsible. Criteria to be used in the selection of such Investment Managers are also enumerated in the Investment Organization and Responsibilities section. The Retirement Board authorizes the Investment Staff to direct funds in accordance with this investment policy.

The Board has also established a reporting process for regular and timely review and evaluation of investment results. The Asset Strategy Statement covers each asset class and each investment management accountability unit within those asset classes. This strategy also specifies long-term target ratios for asset allocation, as well as permissible ranges related to those target allocations. This Strategy Statement is regularly evaluated and updated based on market conditions, investment results and the recommendations of the Investment Staff, Investment Managers and other consultants or advisors.

Investment Organization and Responsibilities

1. Responsibilities of the Retirement Board

The Retirement Board recognizes its responsibility to ensure that the assets of the Fund 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.

INVESTMENT POLICY *(continued)*

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 Fund and communicate them to the Investment Staff and Investment Managers.

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

d. Establish a proxy policy; 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.

f. Review and approve the Annual Plan.

2. Responsibilities of the Investment Staff

The Investment Staff, headed by the Executive Director and the Director of Investments, has the following responsibilities.

The Executive Director has the following responsibilities:

a. Obtain necessary reports on the investment results of the Fund's assets on a timely basis as specified in the Review and Evaluation section.

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

c. Oversee the investment function.

The Director of Investments has 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 Fund 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 and recommend an Annual Plan for the investment of the Fund'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 any Investment Staff member when internally managing assets, is responsible for the specified investment management accountability unit which it manages.

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

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

INVESTMENT POLICY *(continued)*

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.

5. Responsibilities of the Custodian

By law, the custodian for the School Employees Retirement System Fund is the Treasurer for the State of Ohio. As custodian, the Treasurer may contract the custodian duties to one or more financial institutions. Each contracted Custodian is responsible for the management and accountability for the units that it manages.

a. Settle security trades as authorized by the Investment Managers and accurately record all transactions.

b. Safehold all assets within its control in compliance with the relevant sections of the Ohio Revised Code.

c. Capture and record all monies due SERS from investment activities and investment income.

6. Responsibilities of the Finance Director

The Finance Director has the following responsibilities:

a. Review of all policy, plan, guideline, and objective changes made in the Investment Department and report any anomalies, foreseeable problems, or conflicts to both the Investments Director and the Retirement Board.

b. Oversee financial staff in the recording and reconciliation of investment account records in relationship with our custodians.

c. Oversee financial staff in the recording and reconciliation of investment account records in relationship with our Investment Managers.

d. Report calculated performance of each investment account and the overall performance of the fund.

7. Responsibilities of the Investment Consultant

Serves as fiduciary to the Board for independent outside performance reviews, manager searches,

INVESTMENT POLICY *(continued)*

assists in defining the investment objectives and policies, and makes recommendations concerning the structure and diversification of the investments within the public securities market. The consultant makes recommendations for US equities, non-US equities, fixed income, real estate and variations of such markets (tactical asset allocation, currency management, etc.).

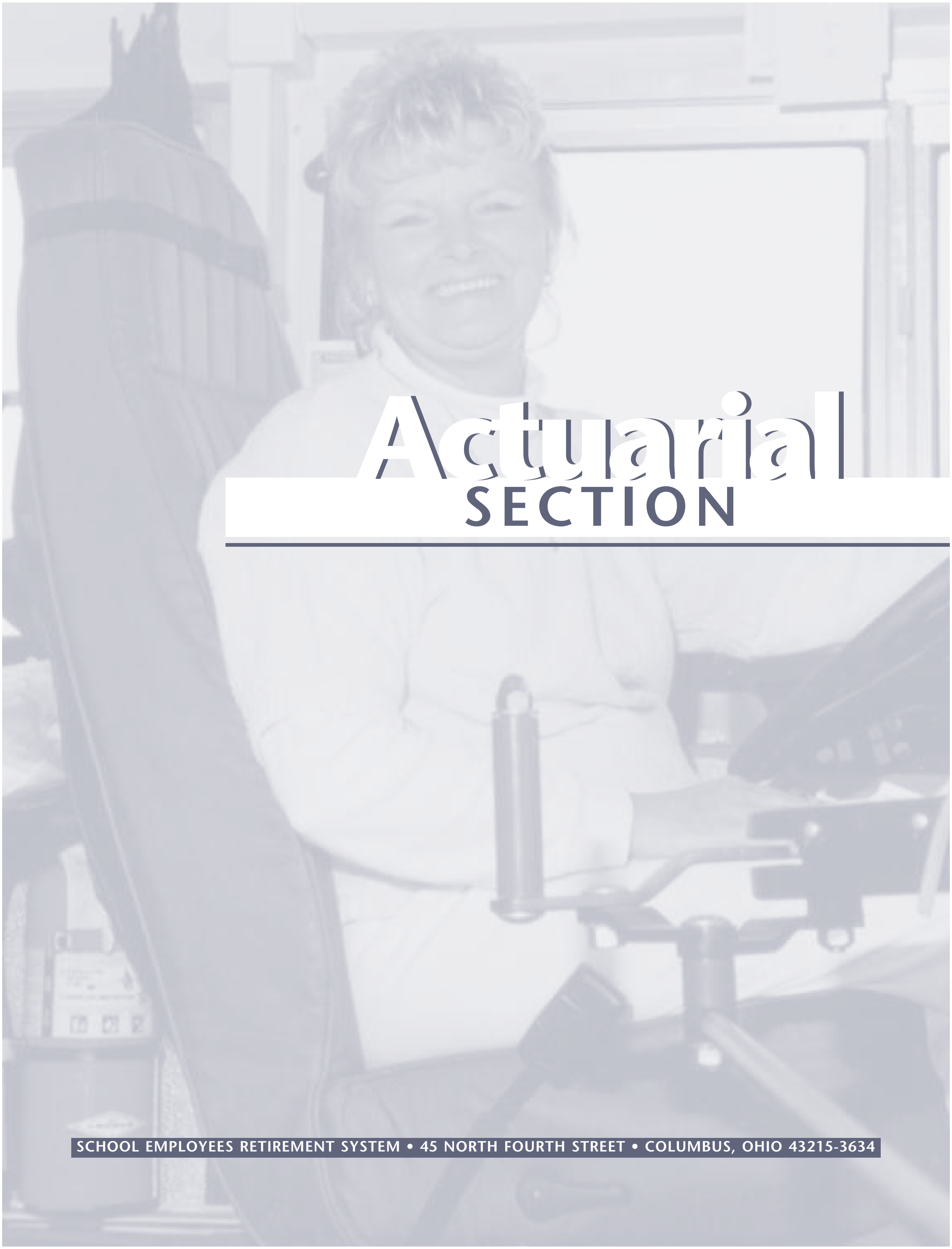
Review and Evaluation

The Board shall review and evaluate periodic reports on the investment results of the Fund's assets. In these reviews, it is intended that greater emphasis shall be given to long-term results than to short-term results. The following is the intended frequency for review and evaluation, although the Board, as deemed necessary, may alter these:

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 requiring the attention of the Board.

Investment Policy was adopted September 2000.



Actuarial SECTION

ACTUARY'S LETTER

GABRIEL, ROEDER, SMITH & COMPANY
Consultants & Actuaries

3017 Douglas Boulevard • Suite 300 • Roseville, CA 95661 • 916-774-7650

November 27, 2000

Board of Trustees
School Employees Retirement System of Ohio
45 N. Fourth Street
Columbus, Ohio 43215

Attention: Robert Hartsook, Deputy Director

Dear Board Members:

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

In order to measure progress toward this fundamental objective, SERS has an actuarial valuation performed each year. The valuations (i) measure present financial position, and (ii) establish contribution rates that provide for the current cost and level percent of payroll amortization of unfunded actuarial accrued liability over a reasonable period. The valuation performed as of June 30, 2000 indicates that a contribution rate of 4.20% of payroll for 113,811 school employees meets the basic financial objective.

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

- to basic benefits and the Medicare Part-B supplement, the portion which will pay normal cost and 25 year amortization of unfunded actuarial accrued liabilities; and
- to health care benefits, the remainder of employer contributions.

The actuarial valuation of the basic benefits and Medicare Part-B supplement is based upon financial and participant data which is prepared by Retirement System staff, assumptions regarding future rates of investment return and inflation, and rates of retirement, turnover, death, and disability among SERS members and their beneficiaries. The data is reviewed for internal and year-to-year consistency as well as general reasonableness prior to its use in the actuarial valuations. It is also summarized and tabulated for the purpose of analyzing trends. The assumptions were adopted by the Board of Trustees and were based upon actual experience of SERS during the years 1990 to 1995. Assets are valued according to a method that fully recognizes expected investment return and averages unanticipated market return over a four-year period. The assumptions and methods utilized in this valuation, in our opinion, meet the parameters established by Governmental Accounting Standards Board Statement No. 25.

ACTUARY'S LETTER

Board of Trustees Page 2

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 our projections of health care fund activity (excluding the Medicare Part-B supplement), the allocated contributions are sufficient to provide for a health care reserve equal to at least 150% of estimated annual claim costs, the funding target established by the Board in 1995. As of June 30, 2000, the value of the health care fund was equal to 179% of health care benefits paid during the year ending on that date.

The current benefit structure is outlined in the Plan Summary. There have been no changes made since the last valuation.

We provided the information used in the schedules of Actuarial Accrued Liabilities, Analysis of Financial Experience, and the Short-Term Solvency Test for basic benefits that are found in the Actuarial Section, and the Analysis of Funding Progress in the Financial Section.

Based upon the results of the valuation of the basic benefits and Medicare Part-B supplement, it is our opinion that the School Employees Retirement System of Ohio continues in sound condition in accordance with actuarial principles of level percent of payroll financing.

Respectfully submitted,

Norman S. Losk, FSA
Senior Consultant

Kenneth G. Alberts
Actuarial Consultant

NSL/cml

GABRIEL, ROEDER, SMITH & COMPANY

STATEMENT OF ACTUARY VALUATION AS OF JUNE 30, 2000

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, 2000, the policy required the determination of a rate for basic benefits which will amortize the unfunded actuarial accrued liabilities over a 25-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, 2000 is 5.55%.

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, 2000 is 8.45%. 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 150 percent of annual health care. For 2000, this resulted in a health care reserve of $252.3 million versus a targeted level of $211.0 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 year 2000, the minimum pay has been established as $12,400. The surcharge, 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, 2000 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 four-year period. To this was added the present value of expected future payments for House Bills 284 and 204, or $880,871.

The following significant assumptions were used in the actuarial valuation as of June 2000:

(1) a rate of return on the investments of 8.25% compounded annually (net after expenses).

STATEMENT OF ACTUARY (*continued*)

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;

(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) benefits will increase 3% per year after retirement.

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, 2000

Present Value of	Basic Benefits
Future monthly benefits and death benefits to present retirees and survivors	$3,734,430,777
Monthly benefits and refunds to present inactive members	173,493,764
Service allowances to present active members	3,667,498,685
Disability allowances to present active members	425,267,565
Death-after-retirement benefit ($1,000) on behalf of present active members	5,514,203
Survivor benefits on behalf of present active members who die before retiring	56,676,535
Medicare Part B supplement	55,482,940
Refunds of member contributions of present active members	(17,937,224)
Benefits for present active members	4,192,502,704
Benefits for present covered persons	$8,100,427,245

Active Member Valuation Data, 1995 to 2000

Actuarial Valuation as of June 30	Number of Active Members	Annual Payroll (millions)	Average Annual Salary
1995	100,784	$1,429.6	$14,184
1996	101,777	1,475.9	14,501
1997	103,739	1,551.6	14,957
1998	106,878	1,651.9	15,456
1999	110,175	1,768.1	16,048
2000	113,811	1,866.3	16,398

Retirants and Beneficiaries Added To and Removed From Rolls, 1995 to 2000

	Added to Rolls		Removed from Rolls		Rolls at end of year		Percent increase	Average
Year	No.	Annual Allowances	No.	Annual Allowances	No.	Annual Allowances	in Annual Allowances	Annual Allowances
1995	3,532	$19,276,044	2,598	$1,279,632	52,413	$263,707,733	7.3%	$5,031
1996	4,032	21,784,417	2,967	2,341,081	53,478	283,151,069	7.4	5,295
1997	3,993	24,576,881	2,917	2,342,248	54,554	305,385,702	7.9	5,598
1998	4,174	25,356,252	3,165	2,470,168	55,563	328,271,786	7.5	5,908
1999	4,127	24,975,211	3,058	2,665,604	56,632	350,581,393	6.8	6,191
2000	4,647	29,849,378	3,455	3,775,345	57,824	376,655,426	7.4	6,514

STATEMENT OF ACTUARY (*continued*)

Analysis of Financial Experience

Gains & Losses in Accrued Liabilities Resulting From Differences Between Assumed Experience & Actual Experience

	Gain (or Loss) For Year $ In Millions					
Type of Activity	**1999***	**1998**	**1997**	**1996**	**1995**	**1994**
Age & Service Retirements If members retire at older ages than assumed, there is a gain. If younger ages, a loss.	$ 24.4	$ 20.1	$ (8.1)	$ (9.7)	$(13.6)	$(18.5)
Disability Retirements If disability claims are less than assumed, there is a gain. If more claims, a loss.	2.7	(0.2)	(2.4)	(8.9)	(5.1)	(5.4)
Death-In-Service Benefits If claims costs are less than assumed, there is a gain. If more claims, a loss.	(0.7)	(0.0)	0.6	0.2	0.2	(0.4)
Pay Increases If there are smaller pay increases than assumed, there is a gain. If greater increases, a loss.	47.3	50.5	76.1	76.6	(3.4)	45.2
Investment Return If there is greater investment return than assumed, there is a gain. If less return, a loss.	487.7	486.6	256.1	126.4	59.2	(6.0)
Retired Health Care** If costs increase less than assumed, there is a gain. If greater increase, a loss.	--	--	--	--	--	40.7
Withdrawal If more liabilities are released by other separations from active membership than assumed, there is a gain. If smaller releases, a loss.	(18.0)	(20.0)	3.1	4.3	6.0	3.0
Retired Lives If more deaths than assumed, there is a gain. If fewer deaths than assumed, there is a loss.	1.0	(1.3)	(1.4)	4.2	4.1	4.3
Other Gains and losses resulting from employment fluctuations, timing of financial transactions, and miscellaneous unidentified sources, as well as differences covered by changes in membership records.	(84.6)	(75.9)	(34.2)	(33.5)	(41.9)	(23.1)
Total Gain (Loss) During Year	$459.8	$459.8	$289.8	$159.6	$ 5.5	$ 39.8

* The results for 2000 are not available at this time.

** SERS adopted pay-as-you-go financing of health care beginning in fiscal year 1995.

STATEMENT OF ACTUARY (*continued*)

Short-Term Solvency Test

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

If the contributions to the System 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-term solvency test is one means of checking a system's progress under its funding program. In a short-term solvency 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	(1)	(2)	(3)
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	4,777	100	100	39
1997	1,177	2,996	2,332	5,402	100	100	53
1997**	1,177	2,996	2,332	5,521	100	100	58
1998	1,255	3,208	2,474	6,413	100	100	79
1998***	1,255	3,269	2,513	6,413	100	100	75
1999	1,341	3,469	2,725	7,332	100	100	93
2000	1,429	3,734	2,937	8,281	100	100	106

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

Statistical SECTION

REVENUES BY SOURCE

Table I

Fiscal Year	Member Contributions	Employer Contributions	Employer Contribution Rate as a Percent of Covered Payroll	Investment Income	Other Revenues	Total
1995	$133,907,577	$227,703,212	14.0%	$ 785,991,298	$2,662,891	$1,150,264,978
1996	138,251,468	238,552,082	14.0	581,602,730	2,201,287	960,607,567
1997	146,156,369	259,243,355	14.0	981,931,142*	2,026,549	1,389,357,415
1998	155,059,879	266,408,260	14.0	1,148,717,399*	2,118,231	1,572,303,769
1999	166,864,847	283,227,401	14.0	865,332,342*	3,170,634	1,318,595,224
2000	179,646,558	303,129,460	14.0	949,985,546*	3,194,230	1,435,955,794

*GASB 25 was adopted in 1997. As a result, investment income includes net appreciation (depreciation) in fair value of investments for 1997, 1998, 1999, and 2000 reduced by investment-related administrative expenses.

EXPENSES BY TYPE

Table II

Fiscal Year	Benefits	Administrative Expenses	Transfers to other Ohio Retirement Systems	Refunds	Total
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
1997	410,337,997	10,811,907*	2,863,606	19,618,499	443,632,009
1998	447,705,667	12,051,740*	3,915,463	18,467,794	482,140,664
1999	507,255,292	14,491,266*	3,444,287	22,177,533	547,368,378
2000	528,461,302	15,716,748*	4,123,815	22,332,580	570,634,445

*Does not include investment administrative expenses, which are included in investment income in Table I above.

BENEFIT EXPENSES BY TYPE

Table III

Year Ending June 30	Service	Disability	Survivor	Health Care	Death Benefits and Refunds	Total
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
1997	260,069,372	37,135,003	14,918,620	97,429,197	20,404,304	429,956,496
1998	278,195,664	40,874,401	15,735,855	111,900,575	19,466,966	466,173,461
1999	317,125,829	44,116,363	18,127,793	126,380,984	23,681,856	529,432,825
2000	321,397,961	46,244,407	18,315,432	140,696,340	24,139,742	550,793,882

NUMBER OF BENEFIT RECIPIENTS BY TYPE

Table IV

Years Ending June 30	Service	Disability	Survivor	Total
1995	44,732	4,285	3,396	52,413
1996	45,555	4,497	3,426	53,478
1997	46,431	4,641	3,482	54,554
1998	47,238	4,792	3,533	55,563
1999	47,959	4,859	3,814	56,632
2000	48,956	4,975	3,893	57,824

NUMBER OF BENEFIT RECIPIENTS

Table V

Amount of Monthly Benefit	Service	Disability	Survivor	Total
$ 1 — 250	23,297	1,264	2,365	26,926
251 — 500	11,356	1,251	958	13,565
501 — 750	6,163	914	337	7,414
751 — 1,000	3,332	607	121	4,060
1,001 — 1,500	3,103	613	84	3,800
1,501 — 2,000	1,014	232	22	1,268
over 2,000	691	94	6	791
	48,956	4,975	3,893	57,824

RETIREMENT AVERAGES

Table VI

Service Retirement

Year Ending June 30	Service Credit	Monthly Amount	Age	Salary
1995	20.201	$587.84	63.50	$16,935
1996	20.460	603.12	63.37	17,243
1997	21.149	678.65	63.66	18,682
1998	21.473	671.89	63.61	18,496
1999	21.505	716.38	63.68	19,419
2000	21.957	761.47	63.51	20,230

Disability Retirement

Year Ending June 30	Service Credit	Monthly Amount	Age	Salary
1995	15.208	$ 790.66	57.04	$18,282
1996	14.694	794.67	55.76	18,172
1997	15.540	848.33	56.31	19,531
1998	15.709	906.25	56.33	20,568
1999	16.014	897.75	56.28	20,252
2000	16.058	1,004.00	55.85	21,807

SCHEDULE OF AVERAGE BENEFIT PAYMENTS

Table VII

Retirement Effective Dates July 1, 1993 to June 30, 2000	Years Credited Service 5-9	 10-14	 15-19	 20-24	 25-29	 30+
Period 7/1/94 to 6/30/95						
Average Monthly Benefit	$ 125	$ 274	$ 414	$ 567	$ 716	$1,406
Average Final Average Salary*	814	1,208	1,306	1,390	1,486	2,221
Number of Retirees	217	353	331	385	557	251
Period 7/1/95 to 6/30/96						
Average Monthly Benefit	$ 151	$ 260	$ 415	$ 573	$ 726	$1,398
Average Final Average Salary*	902	1,168	1,301	1,420	1,503	2,237
Number of Retirees	228	388	355	423	609	302
Period 7/1/96 to 6/30/97						
Average Monthly Benefit	$ 143	$ 294	$ 468	$ 622	$ 775	$1,488
Average Final Average Salary*	777	1,324	1,455	1,538	1,594	2,313
Number of Retirees	201	356	336	376	640	340
Period 7/1/97 to 6/30/98						
Average Monthly Benefit	$ 146	$ 281	$ 458	$ 615	$ 742	$1,411
Average Final Average Salary*	922	1,257	1,448	1,521	1,534	2,219
Number of Retirees	184	373	346	371	696	391
Period 7/1/98 to 6/30/99						
Average Monthly Benefit	$ 214	$ 286	$ 472	$ 631	$ 797	$1,470
Average Final Average Salary*	1,005	1,271	1,501	1,558	1,655	2,301
Number of Retirees	201	337	349	352	689	406
Period 7/1/99 to 6/30/00						
Average Monthly Benefit	$ 238	$ 287	$ 483	$ 677	$ 805	$1,496
Average Final Average Salary*	995	1,270	1,562	1,690	1,685	2,322
Number of Retirees	192	356	403	389	780	518

* Final average salary is presented on a monthly basis for ease of comparison.

NUMBER OF PARTICIPATING EMPLOYERS

Table VIII

Year	Total	Educational Service Centers	Local School Districts	City School Districts	Exempted Village Districts	Colleges	Vocational & Technical Schools	Community Schools	Other
1995	766	83	371	193	49	2	62	0	6
1996	757	76	371	193	49	2	62	0	4
1997	749	67	371	193	49	2	62	0	5
1998	748	65	371	193	49	2	62	0	6
1999	760	61	370	193	49	2	62	17	6
2000	795	60	372	192	49	2	63	51	6

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 795 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 information technology.

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, community 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; and 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, in multiples of one month or more, or by tax deferred payroll deduction. 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 contributing 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 contributing 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.

Optional Service - This is service during a period when the member was given a choice of contributing. 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. The formula is 2.5% for credit over 30 years. 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 retiree will receive a $1,000 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.

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 or Medical Mutual plans or HMOs available in certain counties.

If the benefit recipient participates in Medicare B, SERS reimburses the recipient $31.80 per month.

A prescription drug program is available to benefit recipients of SERS and their dependents who are covered under one of the health plans. 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.