SERS

School Employees
Retirement System of Ohio

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For The Year Ended June, 2001

School Employees Retirement System of Ohio
Comprehensive Annual Financial Report
For The Year Ended June 30, 2001
Prepared by SERS Staff
Thomas R. Anderson, Executive Director

300 EAST BROAD STREET, SUITE 100 • COLUMBUS, OHIO 43215-3746 • 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."

Seated: Barbara Overholser; Mary Kasunic; Judy Kelley.
Standing: Jim Winfree, Attorney General Representative; O'Neal Saunders, Auditor of State Representative; Thomas R. Anderson, Executive Director; Barbara Miller.
Not pictured: Jeannie Knox.

President: **Mary Kasunic,** Wickliffe, Ohio
Term Expires June 30, 2004

Vice President: **Barbara Overholser,** Columbus, Ohio
Term Expires June 30, 2001

Employee-Member: **Barbara Miller,** Malvern, Ohio
Term Expires June 30, 2004

Employee-Member: **Judy Kelley,** Akron, Ohio
Term Expires June 30, 2001

Employee-Member: **Jeannie Knox**, Cincinnati, Ohio
Term Expires June 30, 2003

ExOfficio Member: **Betty Montgomery**
Attorney General

ExOfficio Member: **Jim Petro**
Auditor of State

Thomas R. Anderson
Executive Director

Robert E. Hartsook
Deputy Director

Directors:

Virginia S. Brizendine
Finance

Jimmie Kinnan
General Counsel

Karen G. Kloss
Member Services

Douglas L. Sisson
Investments

Teresa R. Woolley
Information Technology

SERS RETIREMENT BOARD

Mary E. Kasunic, President
Barbara Overholser, Vice-President
Jeannie Knox, Employee-Member
Barbara Miller, Employee-Member
Judy Kelley, Employee-Member
Betty Montgomery, Attorney General
Jim Petro, Auditor of State

Legal/Legislative
JIMMIE KINNAN

Executive Director
THOMAS ANDERSON

Internal Auditor
DENNIS TRZECIAK

Deputy Director
ROBERT HARTSOOK

Administrative Services
- Facilities Management
- Human Resources
- Facilities Development
- Mail Room/Print Shop

Investments
DOUGLAS SISSON
- Portfolio Management
- Investment Operations

Member Services
KAREN KLOSS
- Retirement
- Member Services
- Information Services
- Compliance
- Employer Relations
- Records Management
- Data Entry

Finance
VIRGINIA BRIZENDINE
- General Accounting
- Investment Accounting
- Cash Management
- Tax Reporting

Information Technology
TERESA WOOLLEY
- Data Processing
- Technical Support
- Systems & Programming
- Client Services

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, 2000

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

PPCC

Public Pension Coordinating Council

Public Pension Principles

2000 Achievement Award

Presented to

School Employees Retirement System of Ohio

In recognition of instituting professional standards for public employee retirement systems as established by the Public Pension Principles.

Presented by the Public Pension Coordinating Council, a confederation of
Government Finance Officers Association (GFOA)
National Association of State Retirement Administrators (NASRA)
National Conference on Public Employee Retirement Systems (NCPERS)
National Council on Teacher Retirement (NCTR)

Michael L. Mory
Chairman

School Employees Retirement System

300 EAST BROAD ST., SUITE 100 • COLUMBUS, OHIO 43215-3746 • (614) 222-5853

THOMAS R. ANDERSON
Executive Director

JOHN D. LeHOCKEY
Deputy Director

VIRGINIA BRIZENDINE
Finance

JIMMIE L. KINNAN
General Counsel

KAREN G. KLOSS
Member Services

MILO M. ROUSE, JR.
Health Care Services

DOUGLAS L. SISSON
Investments

TERESA R. WOOLLEY
Information Technology

December 14, 2001

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, 2001. 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, awards 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, investment portfolio performance for the past year, and investment policy;
- 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

On January 9, 2001, Governor Taft signed Senate Bill 270. This bill, introduced by Senator Grace Drake in March 2000, granted increased benefits for SERS retirees and survivors of deceased members. Details of this bill can be found in the Legislative Summary. On April 9, payments of $39.1 million for the retroactive Medicare B reimbursement were mailed to 42,756 retirees and payments of $1.3 million for the increase in the benefit formula were mailed to over 2,500 retirees who retired on or after January 1, 2000.

Senate Bill 270 also directed SERS to develop a defined contribution plan for interested members. We have begun to investigate the types of defined contribution plans offered by public retirement systems nationwide. We will proceed carefully because SERS' members, unlike many participants in defined contribution plans, do not have the safety net provided by the federal social security program. The final design of the plan will be determined after consulting with focus groups, legal counsel and other interested parties.

This is the first year we participated in Cost Effective Management's (CEM) Benefit Administration Benchmarking Service. This exhaustive study of fourteen core administrative activities allows SERS to compare its benefits, services and the cost of providing them against public retirement systems similar in size and demographics. The results from the survey have caused us to re-evaluate and improve how we provide services to members and retirees. We will be taking part in the survey again in fiscal year 2002.

In October 1999 we broke ground on our new building located in downtown Columbus. The ten-story building includes three floors to be leased to tenants and is connected to a 500-car parking garage that will provide ample parking spaces for SERS' visitors, tenants and employees. The move took place in October 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 such as those experienced this year 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.

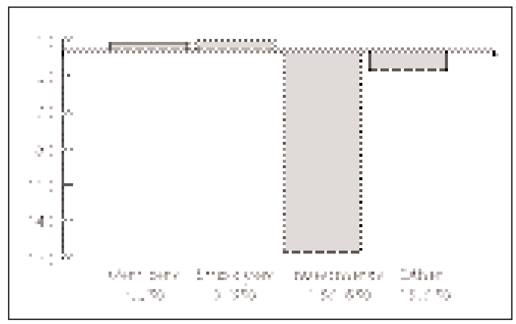
The fair value of the net investments in custody on an accrual basis was $8,055 million at June 30, 2001, a decrease of $834 million from the previous year. Our portfolio returned (6.8)% for the year ended June 30, 2001, slightly underperforming our investment policy benchmark (6.3)%. The freefall of the US Stock Market lead the decline in the portfolio value but was offset, in part, by positive returns in fixed income instruments and real estate. Annualized rates of return for three, five and ten years are 5.5%, 10.7% and 10.7% respectively.

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 2001 totaled $(105,889,051). This amount includes realized and unrealized investment gains and losses. The employee and employer contribution rates during fiscal 2001 remained unchanged from the prior year at 9% and 14%, respectively.

Additions to Plan Net Assets
(millions of dollars)

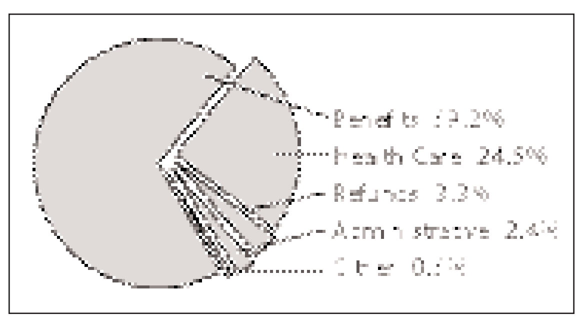
	2001	2000	Increase (Decrease)
Member Contributions	$192.5	$179.6	7.2%
Employer Contributions	331.3	303.1	9.3
Net Investment Income (loss)	(632.4)	950.0	(166.6)
Other	2.7	3.2	(15.6)
Total	$(105.9)	$1,435.9	(107.4)%



Expenses are incurred primarily for the purpose for which SERS was created, the payment of benefits. Included in the total expenses for 2001 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 2001 totaled $659,187,660, an increase of 15.5% over fiscal 2000 expenses. The increase in retirement payments resulted from the retroactive payments of S.B. 270. The major component of increases in health care expense continues to be the higher costs and usage of the prescription drug plan.

Deductions from Plan Net Assets
(millions of dollars)

	2001	2000	Increase (Decrease)
Retirement Payments	$455.8	$387.8	17.5%
Health Care Payments	161.4	140.7	14.7
Refunds	21.8	22.3	(2.2)
Administrative Expenses	16.0	15.7	1.9
Other	4.2	4.1	2.4
Total	$659.2	$570.6	15.5%



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. Net income for the fiscal year 2001 resulted in a decrease in the fund balance of $765 million.

The actuarial valuation for funding purposes, for the year ended June 30, 2001, reflects an unfunded actuarial accrued liability for pension benefits of $61 million. 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 2001 contribution rates and amortization period, is provided within the Actuarial Section (pages 49 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, 2000. This was the sixteenth 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.

SERS also received the Public Pension Coordinating Council's 2000 Achievement Award. The Council is a confederation of four national organizations active in the fields of government finance and public pensions: the Government Finance Officers Association, the National Association of State Retirement Administrators, the National Conference on Public Employee Retirement Systems and the National Council on Teacher Retirement. The purpose of the award is to promote high professional standards for public employee retirement systems and to publicly commend the systems that adhere to those standards. Issued biennially, it is based on compliance with eighteen specific principles that underlie retirement system achievements in the areas of benefits, actuarial valuations, financial reporting, investing and disclosures to members. The principles have undergone extensive review by prominent members of the public retirement system community and are widely acknowledged to be marks of excellence for retirement systems.

ACKNOWLEDGEMENTS

We take this opportunity to recognize two people who have had a significant role in SERS' operations. Judy Kelley has been a member of the SERS Board for twelve years but did not run for re-election this year. She anticipates retiring soon from her position at the Akron City Schools. Robert Hartsook came to SERS seventeen years ago from the Ohio Highway Patrol Retirement System and retired in June 2001 as Deputy Director. Both of these individuals have been instrumental in SERS' efforts to improve benefits and services to members and retirees while keeping the costs at minimum. We shall miss their valuable contributions and wish them well in their future endeavors.

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

The Ohio General Assembly regularly considers legislation that could have an impact on SERS' operations, or the provision of benefits to members or retirees. The following significant Ohio legislation was passed or became effective this year:

S.B. 270 (Effective 4/09/01)

This benefits improvement bill increased SERS' retirement benefit formula from 2.1 to 2.2 percent for the first thirty years of service and increased the pension cap from ninety to one hundred percent of final average salary. Other provisions increased the Medicare Part B reimbursement from $31.80 to $45.50 per month and provided a one-time, lump sum payment to eligible Medicare-covered benefit recipients equal to the difference between $45.50 per month and the amount reimbursed since the latter of 1993 or the individual's Medicare eligibility date and the effective date of the bill. The bill further provided an enhanced survivor benefit when a deceased member had twenty or more years of service credit, and removed the age fifty qualification requirement for a surviving spouse to begin receiving survivor benefits when 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 cap the SERS health care surcharge at two percent of payroll per district, and at one and one-half percent statewide.

H.B. 157 (Effective 2/01/02)

This legislation provides that the annual cost of living adjustment for all five Ohio public retirement systems is a fixed three percent. Previously, the actual change in the consumer price index determined the annual cost of living adjustment, not to exceed a maximum of three percent.

H.B. 535 (Effective 4/01/01; 1/01/02)

This legislation authorizes domestic relations courts to issue a division of benefits order requiring all five Ohio public 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. The legislation was amended to clarify changes to re-employment laws enacted by S.B. 144, and to allow for transfer of service credit, pursuant to agreement, between the five systems and the Cincinnati Municipal Retirement System.

SERS is monitoring the following Ohio legislation that has been introduced and is pending:

S.B. 119 (Passed by the House 10/24/01)

This bill would permit multiple transfers of service and contributions between Ohio's public retirement systems.

H.B. 53 (Introduced 2/01/01)

This bill requires that prescription drug insurance contracts cover drugs dispensed by any pharmacy that is willing to meet the same terms and conditions as a participating pharmacy in a network.

H.B. 173 (Introduced 3/21/01)

This bill would create the Ohio Technology Fund, a venture capital fund that would invest in Ohio high technology businesses with prorated funds from PERS, SERS, STRS, the Ohio Bureau of Workers' Compensation and the state's general revenue fund.

FEDERAL LEGISLATION

The impact of congressional and federal regulatory activities upon SERS has increased in recent years. SERS monitors activities on the federal level, and when appropriate, contacts congressional representatives and regulatory agencies to educate them about the impact of their proposals. Enacted federal legislation this year includes:

Pension Portability

H.R. 1836 (Effective 6/07/01)

Signed into law by the president, this omnibus tax relief bill was amended to include significant pension portability provisions that were long championed by

Ohio Congressman Rob Portman (R-Cincinnati). H.R. 1836 permits rollovers of contributions between retirement savings vehicles such as section 403(b) annuities, section 457 deferred compensation plans, and section 401(a) and 401(k) qualified plans. SERS members will be able to purchase or restore service credit with eligible rollover contributions.

SERS is monitoring the following federal legislation that has been introduced and is pending:

Social Security Offset and Windfall Elimination

H.R. 664 Sponsored by Rep. William Jefferson (D-LA), this bill would set a floor whereby a spousal Social Security benefit would not be reduced if the recipient collects less than $1,200 per month in combined Social Security and public pension benefits. Although the bill has tremendous bipartisan support, it has yet to have a hearing. **S. 611,** sponsored by Sen. Barbara Mikulski (D-MD), is the Senate companion.

H.R. 848 Sponsored by Rep. Max Sandlin (D-TX), this bill seeks to repeal the Windfall Elimination Provision. The bill has not been heard.

H.R 1073 Sponsored by Rep. Barney Frank (D-MA), this bill would eliminate the Windfall Elimination Provision when an individual's combined monthly income from Social Security and other public pensions does not exceed $2,000 per month. No hearings have been scheduled.

H.R. 2638 Sponsored by Rep. Howard "Buck" McKeon (R-CA), this bill would repeal both the Social Security Offset and Windfall Elimination Provisions. **S. 1523**, sponsored by Sen. Dianne Feinstein (D-CA), is similarly intended. Hearings have not taken place on either bill.

Patient Protection

S. 1052 Sponsored by Sen. John McCain (R-AZ), this bill is intended to provide protections for consumers in managed care plans, including coverage for visits to the nearest emergency room, direct access to medical specialists, medically necessary prescription drugs, and clinical trials for experimental treatments. The bill would also provide extensive new opportunities to challenge decisions by health maintenance organizations and insurers, including a two-tiered review process and a right to sue insurers and HMOs over decisions that lead to injury or death. The Senate amended the bill and passed it on June 29, 2001. It has not yet been introduced in the House.

H.R. 2563 Sponsored by Rep. Greg Ganski (R-IA), this bill would require group health plans and health insurance issuers to have approved utilization review programs, claims procedures, and appeal procedures concerning claims denials. The bill sets forth provisions concerning group health plans and health insurers and the provision of certain advice and care, including: emergency care; obstetric and gynecological care; specialist's care; prescription drugs; and participation in approved clinical trials. The House passed the bill on Aug. 2, 2001, and on Sept. 5 it was introduced and placed on the Senate calendar. No further action has been taken.

Bankruptcy Reform

H.R. 333 Sponsored by Rep. George Gekas (R-PA), this bill would make numerous changes in the bankruptcy code, including exemption of all retirement savings assets from bankruptcy estate. The bill has been passed by both the House and Senate, and is expected to go to conference committee.

Social Security Number Privacy

H.R. 2036 Sponsored by Rep. Clay Shaw, Jr. (R-FL), this bill would, among other provisions, prohibit display to general public of Social Security account numbers possessed by governmental agencies; prohibit display of Social Security numbers on checks issued for payment by government agencies; prohibit display by governmental agencies of personal identification numbers; and create new penalties. **S. 1014**, sponsored by Sen. Jim Bunning (R-KY), is the Senate companion. **S. 848**, introduced by Sen. Dianne Feinstein (D-CA) would also prohibit the display, sale, or purchase of Social Security numbers with certain exceptions for the display, sale, or purchase of Social Security numbers written on public records; prohibit the use of Social Security numbers on checks issued for payment by governmental agencies; and create new penalties.

School Employees Retirement System of Ohio

FINANCIAL SECTION

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Deloitte & Touche

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying combining statement of plan net assets of the School Employees Retirement System of Ohio (the "System") as of June 30, 2001 and the related combining statement of changes in plan net assets for the year 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 audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the System as of June 30, 2001, and the changes in plan net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was 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 supplementary and additional information are the responsibility of the System's management. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements for the year ended June 30, 2001 and, in our opinion, is fairly stated in all material respects when considered in relation to the basic 2001 financial statements taken as a whole. The schedules of funding progress and employer contributions for the years ended June 30, 1996 and 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.

Deloitte
Touche
Tohmatsu

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The statistical data on pages 53-60 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 13, 2001, 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.

Deloitte & Touche LLP

December 13, 2001

COMBINING STATEMENT OF PLAN NET ASSETS AS OF JUNE 30, 2001

ASSETS	PENSION TRUST FUND	MEDICARE B FUND	DEATH BENEFIT FUND
Cash (note 4)	$ (4,171,114)	$ (49,340,434)	$ (931,167)
Receivables			
Contributions:			
Employer (note 3)	41,696,183	1,957,527	318,247
Employee (note 3)	17,895,973		
Investments Receivable	218,708,511	4,971,452	691,427
Total Receivables	278,300,667	6,928,979	1,009,674
Investments, at Fair Value (note 2)			
US Equity	3,683,333,531	83,725,667	11,644,527
Non-US Equity	1,075,597,492	24,449,351	3,400,405
Fixed Income Securities	1,826,414,592	41,516,135	5,774,045
Real Estate	897,388,661	20,398,495	2,837,013
Private Equity	97,111,943	2,207,447	307,011
Short-Term Investments	381,752,617	8,677,601	1,206,876
Total Investments	7,961,598,836	180,974,696	25,169,877
Security Lending Collateral (note 4)	290,473,171	6,602,730	918,305
Property and Equipment, at Cost (note 5)	12,168,036		
Less Accumulated Depreciation	(6,898,199)		
	5,269,837		
Other Assets	60,176,983	802	111
TOTAL ASSETS	8,591,648,380	145,166,773	26,166,800
LIABILITIES			
Payables			
Accounts Payable and Accrued Expenses (note 8)	5,844,591	196	265,000
Investments Payable	434,308,966	9,872,255	1,373,029
Security Lending Collateral (note 4)	290,473,171	6,602,730	918,305
TOTAL LIABILITIES	730,626,728	16,475,181	2,556,334
NET ASSETS HELD IN TRUST FOR PENSION AND POSTEMPLOYMENT HEALTH CARE BENEFITS	$7,861,021,652	$ 128,691,592	$ 23,610,466

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

See accompanying notes to the financial statements.

HEALTH CARE FUND	TOTAL
$ 56,820,816	$ 2,378,101
137,619,553	181,591,510
	17,895,973
4,092,357	228,463,747
141,711,910	427,951,230
68,920,571	3,847,624,296
20,126,006	1,123,573,254
34,174,895	1,907,879,667
16,791,458	937,415,627
1,817,107	101,443,508
7,143,151	398,780,245
148,973,188	8,316,716,597
5,435,179	303,429,385
	12,168,036
	(6,898,199)
	5,269,837
(47,454)	60,130,442
352,893,639	9,115,875,592
23,618,034	29,727,821
8,126,557	453,680,807
5,435,179	303,429,385
37,179,770	786,838,013
$ 315,713,869	$8,329,037,579

COMBINING STATEMENT OF CHANGES IN PLAN NET ASSETS FOR THE YEAR ENDED JUNE 30, 2001

ADDITIONS	PENSION TRUST FUND	MEDICARE B FUND	DEATH BENEFIT FUND
Contributions:			
Employers (note 3)	$ 90,091,402	$ 3,667,340	$ 649,974
Employees (note 3)	192,563,026		
Transfers from other Ohio Systems	2,660,220		
Total Contributions	285,314,648	3,667,340	649,974
Income from Investment Activity			
Net Depreciation in Fair Value	(846,776,905)	(19,248,020)	(2,677,024)
Interest and Dividends	194,853,216	4,429,199	616,011
Real Estate Income	72,038,667	1,637,508	227,744
	(579,885,022)	(13,181,313)	(1,833,269)
Investment Expenses	(28,116,949)	(639,126)	(88,889)
Net Income/(Loss) From Investment Activity	(608,001,971)	(13,820,439)	(1,922,158)
Income from Security Lending Activity			
Gross Income	35,173,901	799,536	111,199
Brokers' Rebates	(32,089,029)	(729,414)	(101,447)
Management Fees	(498,752)	(11,337)	(1,577)
Net Income from Security Lending Activity	2,586,120	58,785	8,175
Total Net Investment Income/(Loss)	(605,415,851)	(13,761,654)	(1,913,983)
TOTAL ADDITIONS	(320,101,203)	(10,094,314)	(1,264,009)
DEDUCTIONS			
Benefits:			
Retirement	330,712,415	50,969,689	
Disability	48,349,429	2,554,641	
Survivor	18,172,667	2,955,722	
Health Care			
Death			2,013,003
Total Benefits	397,234,511	56,480,052	2,013,003
Refunds and Lump Sum Payments	21,817,451		
Administrative Expenses	14,975,992	266,749	36,689
Transfers to other Ohio Systems	4,198,302		
TOTAL DEDUCTIONS	438,226,256	56,746,801	2,049,692
NET INCREASE / (DECREASE)	(758,327,459)	(66,841,115)	(3,313,701)
NET ASSETS HELD IN TRUST FOR PENSION AND POSTEMPLOYMENT HEALTH CARE BENEFITS:			
Balance, Beginning of Year	8,619,349,111	195,532,707	26,924,167
Balance, End of Year	$7,861,021,652	$ 128,691,592	$ 23,610,466

See accompanying notes to the financial statements

HEALTH CARE FUND	TOTAL
$ 236,898,701	$ 331,307,417
	192,563,026
	2,660,220
236,898,701	526,530,663
(15,844,445)	(884,546,394)
3,645,989	203,544,415
1,347,950	75,251,869
(10,850,506)	(605,750,110)
(526,110)	(29,371,074)
(11,376,616)	(635,121,184)
658,155	36,742,791
(600,433)	(33,520,323)
(9,332)	(520,998)
48,390	2,701,470
(11,328,226)	(632,419,714)
225,570,475	(105,889,051)
	381,682,104
	50,904,070
	21,128,389
161,439,934	161,439,934
	2,013,003
161,439,934	617,167,500
	21,817,451
724,977	16,004,407
	4,198,302
162,164,911	659,187,660
63,405,564	(765,076,711)
252,308,305	9,094,114,290
$ 315,713,869	$8,329,037,579

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2001

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.

Four separate funds comprise the SERS retirement system. The Pension Trust Fund, the Medicare B Trust Fund and the Death Benefit Fund are pension funds. The Pension Trust Fund hold the funds to pay the basic retirement benefits authorized under Ohio Revised Code (ORC) 3309. The Medicare B Fund pays the reimbursement for Medicare premiums paid by retirees and beneficiaries as set forth in ORC 3309.69. The Death Benefit Fund (ORC 3309.50) pays a $1,000 benefit upon the death of a member or retiree.

ORC 3309.375 and 3309.69 permit SERS to pay healthcare benefits to retirees and beneficiaries. Funds available for such benefits are recorded in a separate fund known as the Health Care Fund.

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	**2001**
Local	371
City	194
Educational service center	59
Village	49
Technical	64
Community	77
College	1
Other	6
Total	821

Employee Members	**2001**
Retirees and beneficiaries currently receiving benefits	58,795
Terminated employees entitled to but not yet receiving benefits	7,957
Total	66,752

Current Employees	.
Vested	63,079
Non-vested	52,605
Total	115,684

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 2.2% of the member's final average salary, or a minimum of $86, multiplied by the number of years of 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.

Retirees and beneficiaries who pay Medicare B premiums may apply for and receive a monthly reimbursement from SERS. S.B.270, enacted during FY2001 raised the reimbursement amount to $45.50 from $31.80, effective April 2001.

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.

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 internal administrative expenses associated with the SERS' investment program.

Office Building, Equipment and Fixtures (Non-Investment Assets) — Office building and equipment and fixtures in excess of $1,000 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 — The SERS Pension Trust Fund is considered a qualified entity under Section 501(a) of the Internal Revenue Code (IRC) and is therefore exempt from federal income taxes. The Medicare B Fund is established pursuant to IRC Section 401(h). The Death Benefit Fund is an insurance fund and is in compliance with IRC 101(a). The Health Care Trust Fund is structured to meet the requirements of IRC Section 105(e).

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 among the four trust funds of the system by the Retirement Board, upon the advice of the Actuary. For fiscal year 2001, the allocation of the employer contribution rate to pension fund benefits was established as the rate necessary to cover normal cost. Of the 14% contribution rate paid by employers, 4.2% was allocated to the pension funds in the following rates:

Pension Trust Fund	4.00%
Medicare B Fund	.17%
Death Benefit Fund	.03%

During fiscal year 2001, the remaining 9.8% of the 14% employer contribution rate went to the Health Care Fund. The Health Care Fund balance at June 30, 2001 was $315.7 million, which is $73.5 million above the minimum reserve amount.

Employer and employee contributions required and made represented 14% and 9%, respectively, of active member payroll and amounted to $294.5 million and $189.3 million, respectively, in 2001. 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. A health care surcharge on employers is collected for employees earning less than an actuarially determined minimum pay, pro-rated according to service credit earned. For fiscal year 2001, the minimum has been established as $12,400. The surcharge accrued for fiscal year 2001 included in contribution revenue from employers in the Combining Statement of Changes in Plan Net Assets is $24.0 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, 2001, the carrying amount of SERS' operating and investment cash deposits was $2,378,101 and the bank balances were $14,632,198. 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 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 following investment summary identifies the level of custodial credit risk assumed by SERS as of June 30, 2001 (amounts expressed in thousands).

	Total Fair Value	Category 1	Category 2	Category 3	Non-Categorized
US government and agency obligations	$1,021,915	$ 852,476	$ -	$ -	$ 169,439
US corporate bonds & obligations	853,964	853,069			895
Non-US bonds	33,488	30,267			3,221
US equity	1,286,640	1,189,513		177	96,950
Non-US equity	395,522	380,677			14,845
Repurchase agreements	115,300	115,300			
Overnight discount notes	261,121	261,121			
Real estate investment trusts	157,397	151,289			6,108
Private equity	99,132				99,132
Commercial paper	20,871	20,871			
Commingled funds:					
US equity	2,563,296				2,563,296
Non-US equity	728,052				728,052
Real estate	780,018				780,018
Security lending collateral:					
Commercial paper	210,775	210,775			
Overnight discount notes	90,000	90,000			
Mutual funds	2,654				2,654
Total investments and security lending collateral	**$8,620,145**	**$4,155,358**	**$ -0-**	**$ 177**	**$4,464,610**

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 and the Board's "Investment Objectives and Policies" (adopted September 2000) direct that the funds of the system will be invested following the "prudent expert 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, 2001, SERS had outstanding contracts in the amount of $509,915,164 which had a maturity date of September 7, 2001, and net gains on rejoined contracts of $73,349,885 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 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. The System also used equity and fixed income futures during a portion of fiscal 2001 to rebalance its asset allocation.

As of June 30, 2001, SERS held S&P 500 and Russell 2000 equity index futures in the amount of $25,357,375 with an expiration date of September 21, 2001 and a realized net gain of $5,267,747 during the fiscal year.

The System also held fixed income futures at year-end. US Treasury Bond/Note Futures in the amount of $32,129,406 with an expiration date of September 19, 2001 had a realized net gain of $500,016 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 $904,550,194 at June 30, 2001, representing 10.9% 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 $1,485,293 during fiscal year 2001.

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. Total net proceeds from this program was $1,216,177 during fiscal year 2001.

At June 30, 2001 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 $291,456,749 and total collateral held for those securities was $303,429,385. 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, 2001 the collateral portfolio had an average weighted maturity of 45 days.

Commitments — As of June 30, 2001, outstanding commitments related to the real estate and venture capital investment portfolios totaled $239,662,549.

5. Property and Equipment (Non-Investment Assets)

A summary of property and equipment at June 30 follows:

	2001
Land	$ 1,178,055
Building and improvements	4,299,591
Furniture and equipment	6,690,390
	12,168,036
Less accumulated depreciation	6,898,199
	$ 5,269,837

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 rate for miscellaneous employers during fiscal year 2001 was an annualized rate of 10.84% of covered payroll. This rate reflected a one-time employer contribution rate rollback from the previously required employer rate of 13.55%. 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, 2001 was $5,992,804; SERS' total payroll was $6,934,778. SERS' contributions to PERS for the years ending June 30, 2001, 2000, and 1999 were $658,221, $773,894, and $682,648 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, 2000, the plan had 399,919 active participants.

A portion of each employer's contribution to PERS is set aside for the funding of postemployment health care. The current rate is 4.3% of member covered payroll. For the year ended June 30, 2001, approximately $258,000 of employee payroll contributed by SERS to PERS was the portion used to fund health care. Net assets held in trust at December 31, 2000 for postemployment health care benefits were $10.9 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, 1999 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, 2001, $769,700 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 $36.1 million for the office building. Construction began in October 1999 and is scheduled for completion in September 2001.

10. Change in Accounting and Reporting Entity

Effective July 1, 2000 SERS adopted unitized accounting principles. Subsequently, SERS separated the two previous reporting entities into four legally separate entities. The four separate reporting entities are Pension Trust Fund, Medicare B Fund, Death Benefit Fund and Health Care Fund. The effect of this change separated for reporting purposes $195,532,707 into the Medicare B Fund from the Pension Fund and $26,924,167 into the Death Benefit Fund from the Pension Trust Fund.

The total investments of SERS as of June 30, 2000 were pooled and units of that pool assigned to the Pension Trust Fund, Medicare B Fund, Death Benefit Fund and Health Care Fund in proportion to the June 30, 2000 value of each fund. The investments were unitized to properly reflect the accounting treatment of the funds since 1995 when the funding of the Health Care Fund was no longer on an actuarial funding basis. The initial value of a unit on July 1, 2000 was $1,000. On June 30, 2001 the value of each unit was $929.23.

11. Contingent Liabilities

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

12. New Accounting Pronouncement

In June 1999, the GASB issued Statement No. 34, *Basic Financial Statements and Management, Discussion and Analysis for State and Local Governments*. This statement establishes new financial reporting requirements for state and local governments, which consist of Management's discussion and analysis and required supplementary information. SERS will be required to implement this statement for the June 30, 2002 annual report. Management has determined that Statement 34 will not have a material impact on its net assets available for benefits and changes for net assets available for benefits when such a statement is adopted.

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
1996	$ 6,184	$ 4,766	$ 1,418	77	$ 1,476	96%
1996(1,2)	6,129	4,778	1,351	78	1,476	92
1997(2)	6,504	5,521	983	85	1,552	63
1998(3)	7,037	6,413	624	91	1,652	38
1999(4)	7,535	7,332	203	97	1,768	11
2000	8,100	8,281	(181)	102	1,866	–
2001(1,3)	8,852	8,791	61	99	1,974	3

* The amounts reported in this schedule do not include assets or liabilities for postemployment health care benefits.
(1) After change in actuarial assumptions.
(2) After change in asset valuation method.
(3) After change in benefit provisions.
(4) After change in normal cost method.

Schedule of Employer Contributions*

Year Ended June 30	Annual Required Contributions	Percentage Contributed
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
2001	78,459,360	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, 2001
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* - 4.75% to 25.0%
Cost of living adjustments - 3% simple

*Includes inflation at 4.25%

SUMMARY OF INVESTMENT EXPENSES FOR THE YEAR ENDED JUNE 30, 2001

Description of Expense	Assets Under Management June 30, 2001	Direct Fees
US equity	$ 3,847,624,296	$ 8,455,030
Non-US equity	1,123,573,254	3,309,410
Fixed income	1,907,879,667	3,271,383
Real estate	937,415,627	8,072,773
Private equity	101,443,508	3,688,873
Short-term investments	398,780,245	33,178
Total investment management fees	$ 8,316,716,597	$ 26,830,647
Custodial fees		908,663
Investment consultant fees		531,000
Investment pool administrative expenses (see note 2)		1,100,764
Total other investment expenses		2,540,427
Total investment expenses		$ 29,371,074

SCHEDULE OF PAYMENTS TO CONSULTANTS

SERS paid the following consulting fees in fiscal 2001:

Actuarial	$ 124,026
Audit	71,114
Legal counsel	243,027
Medical consultant	23,040
Information technology consultants	69,874
Health care consultants	53,992
Other consultants	402,513
Disability exams	464,982
Expenses associated with disability exams	26,462
Total	$1,479,030

Schedule of Brokers' Fees is presented on page 43.

ADMINISTRATIVE EXPENSES
FOR THE YEAR ENDED JUNE 30, 2001

	Administrative Expenses	Investment Pool Expenses
Personnel Services		
Salaries	$ 6,188,264	$ 746,514
Retirement contributions	594,025	64,196
Insurance	672,511	34,075
Total personnel services	7,454,800	844,785
Professional Services		
Medical	514,484	–
Technical	746,114	23,292
Actuarial	124,026	–
Auditing	71,114	–
Total professional services	1,455,738	23,292
Communications		
Postage	648,581	–
Telephone	98,476	–
Retirement counseling services	61,151	–
Printing and publications	245,029	–
Total communications	1,053,237	–
Other Services		
Computer support services	4,062,822	91,206
Equipment repairs and maintenance	74,332	–
Building occupancy and maintenance	453,451	–
Supplies	80,498	130
Transportation and travel	213,704	44,008
Employee training	97,758	22,390
Equipment rental	33,140	60,911
Surety bonds and insurance	119,872	–
Memberships and subscriptions	47,724	13,371
Retirement study commission	48,118	–
Miscellaneous	96,163	671
Total other services	5,327,582	232,687
Total administrative expenses before depreciation	15,291,357	1,100,764
Depreciation (Non-Investment)		
Furniture and equipment	599,495	–
Building	113,555	–
Total depreciation	713,050	–
Total administrative expenses	$16,004,407	$1,100,764

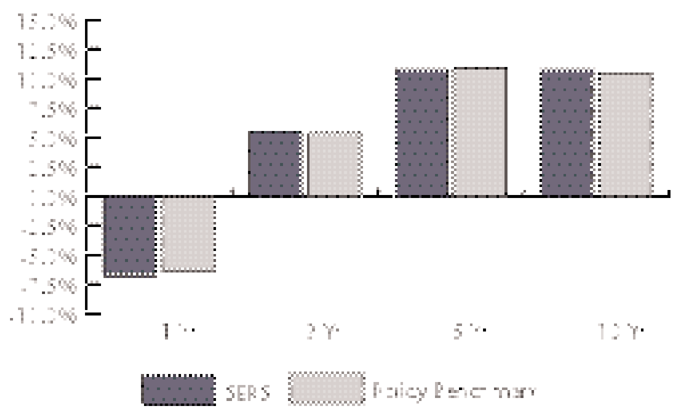
School Employees Retirement System of Ohio

INVESTMENT SECTION

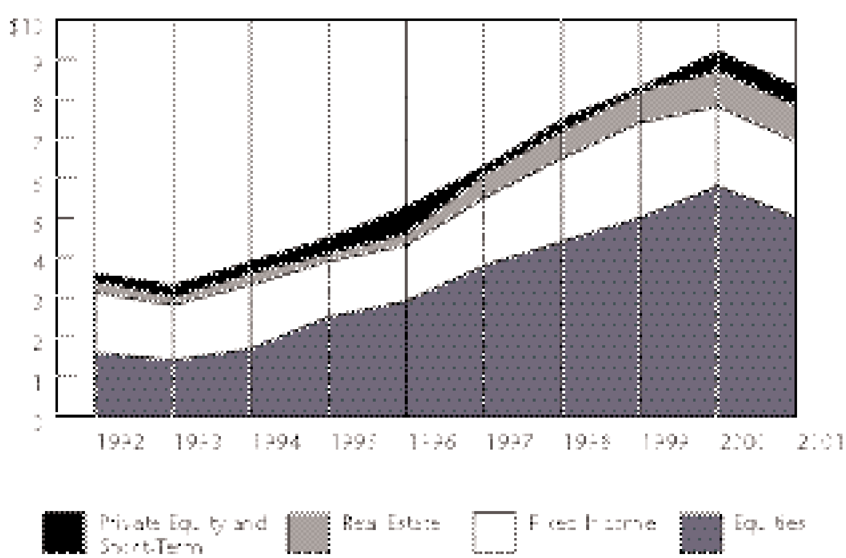
INVESTMENT SUMMARY AS OF JUNE 30, 2001

Portfolio Type	Fair Value	% of Total Fair Value
US Equity	$3,847,624,296	46.3%
Non-US Equity	1,123,573,254	13.5%
Fixed Income	1,907,879,667	22.9%
Real Estate	937,415,627	11.3%
Private Equity	101,443,508	1.2%
Short-Term	398,780,245	4.8%
TOTAL	$8,316,716,597	100.0%

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 one significant change to its Investment Policy. As a result of a staff recommendation completed at the end of fiscal year 2001, the following change was made: Within the fixed income portfolio, the fund may invest up to 20% of the funds in "extended sector" securities. Extended sectors include, but are not necessarily limited to emerging market debt, high-yield bonds, and non-dollar bonds.

A change approved in the last fiscal year continues to phase in during the coming fiscal year. Private equity investments increase to three percent of total fund assets on July 1, 2002; the interim allocation of two percent went into effect on July 1, 2001. Additionally, the mandate changed to include all private equity investments on a global basis. The increased funding comes from US Equities.

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, 2001 policy portfolio includes:

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

INVESTMENT STRATEGIES

Asset Allocation

Every three to five years, the Board conducts an asset allocation study. The results of the study determine the efficient allocation between asset classes to achieve the Board's overall return/risk objectives. The last study was completed during the previous fiscal year and typically the next one would be contemplated in the next two to four years. Given the subsequent events of September 11, the Board may review the allocation sooner.

Diversification

SERS continues to invest in several different asset classes. Last year's market decline reminds us that not "putting all of your eggs in one basket" i.e. the US stock market, is a good idea. Strong returns in the Fixed Income and Real Estate assets classes dampened the decline of investment returns at the overall fund level.

Further, our strategy of diversifying with a "multi-manager" and "multi-style" approach paid handsomely last year. Within most asset classes, investments are made with investment management firms with different areas of specialization and expertise. The best example continues to be in US equities. Having a portfolio that includes both value and growth stocks as well as large and smaller companies, ensures exposure to all when some types have disappointing results.

As of June 30, 2001, SERS had hired or invested with 39 external firms in all of the 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, 2001 were dampened by the impact of the last year, but would still be considered very good by historical standards. SERS earned an annualized total return, gross of investment fees of 10.7%. The biggest driver of this performance was a US Equity market that returned an annualized 13.4% for the five-year period.

The table "Schedule of Investment Results" summarizes the results for the various time periods against the investment policy benchmark for the fund and each of the asset classes.

Fiscal Year 2001 Results

For the fiscal year ending June 30, 2001, SERS' total fund returned (6.8)%, gross of investment fees. The Board's investment policy benchmark was (6.3)%, resulting in a slight underperformance. After five straight years of extraordinary performance in US equities, both US as well as non-US stock markets suffered negative results. This was the largest contributor to these results.

SCHEDULE OF INVESTMENT RESULTS FOR THE YEARS ENDED JUNE 30,

						Annualized Rates of Return		
	2001	2000	1999	1998	1997	3-Year	5-Year	10-Year
US Equity								
SERS	(15.4)%	11.6%	18.7%	28.1%	29.6%	4.1%	13.4%	14.2%
Standard & Poor's 500 Index	(14.8)	7.4	22.7	30.3	34.8	3.9	14.5	15.1
Russell 3000 Index	(13.9)	9.6	20.1	28.8	30.6	4.2	13.8	15.0
Non-US Developed Markets Equity								
SERS	(16.7)	19.5	7.0	12.6	17.1	2.1	7.0	-
MSCI All Country World Free ex US, developed markets 50% hedged (3)	(18.8)	19.5	8.9	11.5	17.7	1.9	6.4	-
Non-US Emerging Markets Equity								
SERS	(23.5)	3.1	43.9	-	-	3.5	-	-
MSCI Emerging Markets Free Index	(25.8)	9.5	28.7	-	-	1.5	-	-
Fixed Income								
SERS	12.5	4.8	2.7	10.8	8.5	6.6	7.8	7.7
Lehman Bros. Aggregate Index	11.2	4.6	3.1	10.5	8.2	6.3	7.5	7.9
Real Estate								
SERS (1)	12.4	12.9	9.6	12.2	12.2	11.6	11.8	7.6
NCREIF Index (one quarter in arrears)	12.0	11.2	14.5	16.0	10.1	12.6	12.7	6.9
Short-Term								
SERS	9.1	5.6	4.9	5.6	5.5	6.5	6.1	5.4
Salomon Bros. 30 Day Treas. Bill Index	5.2	4.9	4.3	4.9	4.9	4.8	4.9	4.4
Private Equity								
SERS (1)	(32.7)	118.5	39.6	10.5	(24.5)	27.0	11.3	28.2
Standard & Poor's 500 Index + 300bps (2)	(11.8)	11.4	27.7	35.3	39.8	8.0	18.9	19.8
Total Fund								
SERS	(6.8)	12.1	12.1	18.6	19.0	5.5	10.7	10.7
Policy Benchmark (4)	(6.3)	9.7	13.7	19.3	20.1	5.3	10.9	10.5

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 fee 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 6/30/01 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.

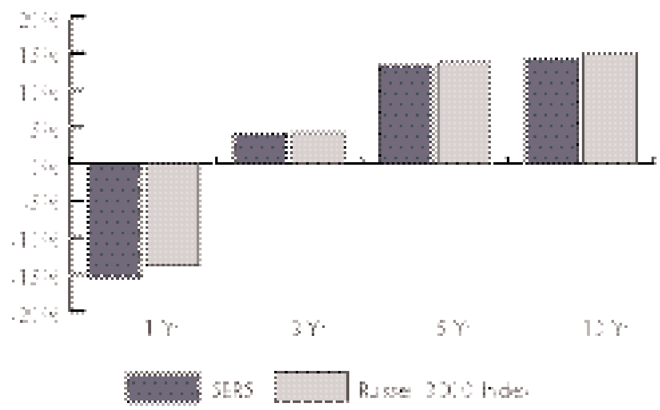
US EQUITIES

For the fiscal year ending June 30, 2001, SERS US equity portfolio returned (15.4)%, underperforming its benchmark - the Russell 3000 Index - by 1.5%. On an annualized basis, the SERS US Equity portfolio has underperformed its benchmark by 0.1% over the past three years.

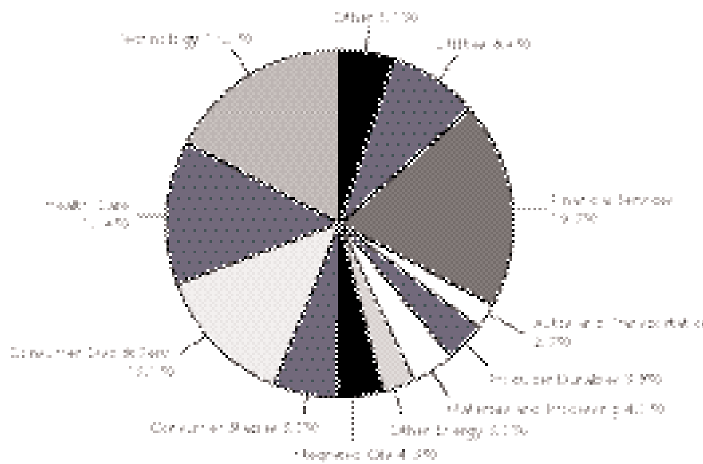
The U.S. equity market fell 13.9% this fiscal year compared to the 9.6% gain the previous fiscal year. The drop in the absolute level of returns was accompanied by a huge reversal in the relative performance of investment styles. Last fiscal year, growth stocks outperformed value stocks. However, this fiscal year value stocks outperformed growth stocks by 54.1% among small cap stocks and 46.5% among large cap stocks. Fortunately, the SERS US Equity portfolio is by design both size and style neutral to the Russell 3000 Index.

To maintain neutrality with regard to market capitalization and style, SERS restructured the passive portion of the US equity portfolio in March of 2001. 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 in January 2001.

US EQUITY



ECONOMIC SECTORS



LARGEST INDIVIDUAL US EQUITY HOLDINGS (excludes commingled funds) **AS OF JUNE 30, 2001**

	Description	Shares	Market Price	Fair Value
1	GENERAL ELECTRIC CO.	594,540	$ 48.75	$28,983,825
2	MICROSOFT CORP.	279,900	73.00	20,432,700
3	PFIZER, INC.	413,807	40.05	16,572,970
4	AOL TIME WARNER, INC.	302,500	53.00	16,032,500
5	JOHNSON & JOHNSON	307,840	50.00	15,392,000
6	CITIGROUP, INC.	281,297	52.84	14,863,733
7	INTERNATIONAL BUSINESS MACHINES	117,600	113.00	13,288,800
8	AMERICAN INTERNATIONAL GROUP	125,050	86.00	10,754,300
9	FEDERAL NATIONAL MORTGAGE ASSN.	117,890	85.15	10,038,333
10	CISCO SYSTEMS, INC.	538,400	18.20	9,798,880

All monetary values stated in US dollars

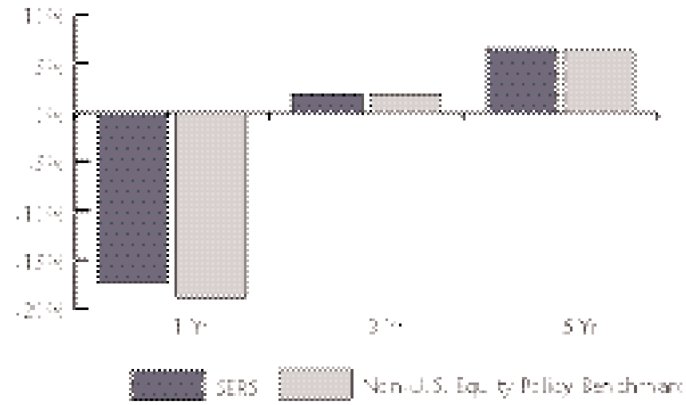
A complete listing of holdings is available upon request

NON-US EQUITIES

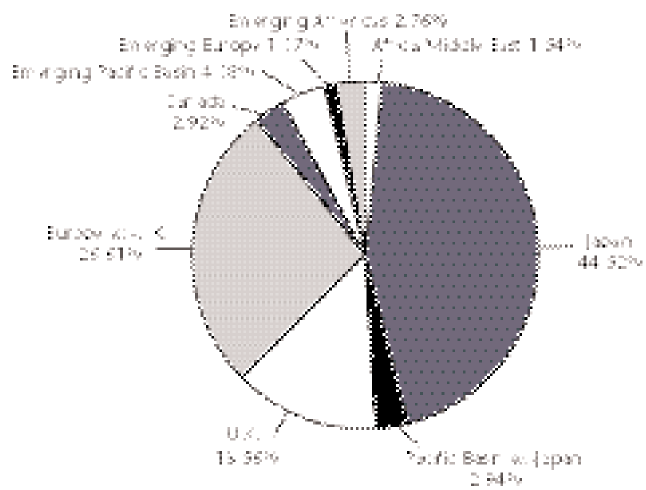
For the fiscal year ending June 30, 2001, SERS Non-US equity portfolio returned (17.4)%, outperforming its policy benchmark (the 50% hedged MSCI All Country World Free Excluding the US Index) by 1.4%. On an annualized basis, the SERS Non-US Equity portfolio has underperformed its benchmark by less than 0.1% over the past three years but outperformed its benchmark by over 0.1% over the past five years. Stocks in developed markets fell 23.1% and those in emerging markets fell 25.8% for the fiscal year.

SERS' benchmark provider has announced that it would be phasing in changes in the weights of the constituent stocks based upon the extent to which these stocks freely traded in the open market. In anticipation of these changes, and in an attempt to capitalize upon cost savings, SERS moved its passive funds to a "provisional" index late in the fiscal year but in advance of the proposed changes.

NON-US EQUITY



GEOGRAPHIC ALLOCATION



LARGEST INDIVIDUAL NON-US EQUITY HOLDINGS (excludes commingled funds) **AS OF JUNE 30, 2001**

	Description	Country	Shares	Market Price	Fair Value
1	AVENTIS S.A.	France	95,095	$ 80.18	$7,725,029
2	KONINKLIJKE AHOLD NV	Netherlands	242,159	31.46	7,618,588
3	ENI S.P.A.	Italy	617,337	12.24	7,558,871
4	CANON, INC.	Japan	186,000	40.41	7,516,393
5	UNILEVER NV	Sweden	123,336	60.20	7,424,980
6	VIVENDI UNIVERSAL S.A.	France	112,917	58.54	6,610,517
7	TOTALFINAELF S.A.	France	46,253	140.63	6,505,004
8	ALLIANZ AG-REG	Germany	21,009	294.79	6,193,432
9	SUEZ S.A.	France	189,755	32.31	6,131,249
10	BANK OF MONTREAL	Canada	229,956	25.81	5,936,042

All monetary values stated in US dollars

FIXED INCOME

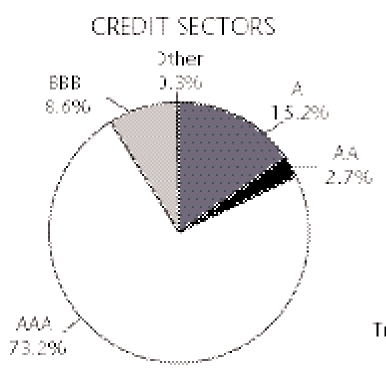
The SERS Fixed Income portfolio outperformed the performance of its benchmark index, the Lehman Brothers Aggregate Index, for the fiscal year ending June 30, 2001. The portfolio returned 12.5% and the index returned 11.2%.

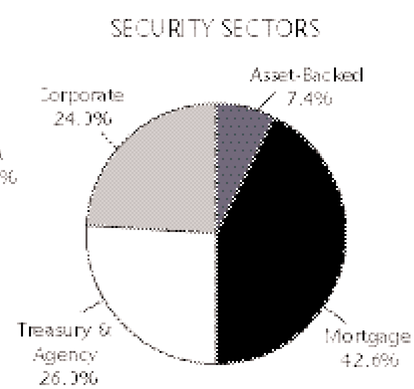
The fixed income portfolio continues to focus on high quality bonds. For example, at the end of the fiscal year, 73% of the portfolio had a Standard & Poors rating of "AAA" - the highest quality ranking. The portfolio has a lower allocation to Treasuries and Agency securities and a higher allocation to mortgage and corporate sectors than the benchmark index.

Last year saw the unusual occurrence of what is referred to in the business as an "inverted yield curve." This means that long-term yields were lower than short and medium-term yields. For example, 6-month yields stood at 6.2% while 30-year yields were 5.9% at June 30, 2000. A year later, normalcy had returned. 6-month yields had dropped dramatically to 3.6%, while 30-year yields were nearly unchanged at 5.7%. For investors focused on intermediate maturity bonds, the decline in these rates lead to higher bond prices. Bond markets reacted favorably to the aggressive easing by the Federal Reserve during the last half of the fiscal year.

One of the goals for fixed income during the fiscal year was to comprehensively review the portfolio structure. An exhaustive review of the available universe of securities determined that a substantial portion was not allowed under the current investment policy. Staff presented research that concluded we could add risk-adjusted incremental return to our portfolio by adding these new sectors. These sectors include high-yield bonds, international bonds and emerging market debt.

By Board vote, the investment policy was modified to allow a maximum of 20% of these extended sectors into the fixed income portfolio. Fixed income managers with proven track records in managing these types of bonds will have their guidelines adjusted to reflect the ability to add them to the portfolio.





LARGEST INDIVIDUAL FIXED INCOME HOLDINGS AS OF JUNE 30, 2001

	Description	Rating	Coupon	Maturity Date	Par Value	Market Price	Fair Value
1	GNMA TBA	AAA	6.500	07/01/2031	$109,929,000	$ 99.82	$109,403,143
2	FNMA TBA	AAA	6.000	07/01/2031	67,100,000	96.73	67,895,762
3	FNMA TBA	AAA	7.000	08/01/2031	26,645,000	100.37	26,744,919
4	Treasury Note Inflation Adjusted	AAA	3.625	04/15/2028	21,390,000	111.80	23,914,927
5	FHLMC 1693-H	AAA	6.000	12/15/2008	20,000,000	101.53	20,306,200
6	Vendee Mortgage Trust 1998-2 1C	AAA	6.750	05/15/2019	18,000,000	102.18	18,393,660
7	FNMA TBA	AAA	6.000	07/01/2016	17,160,000	98.93	16,977,041
8	Treasury Note Inflation Adjusted	AAA	3.875	01/15/2009	15,150,000	112.00	16,968,226
9	FNMA 535827	AAA	6.500	12/01/2012	16,744,996	101.08	16,926,512
10	Treasury Note	AAA	6.125	08/15/2029	14,270,000	103.57	14,780,581

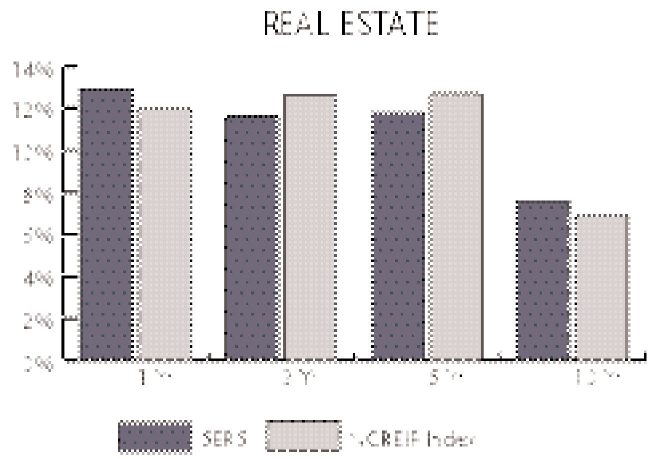
All monetary values stated in US dollars

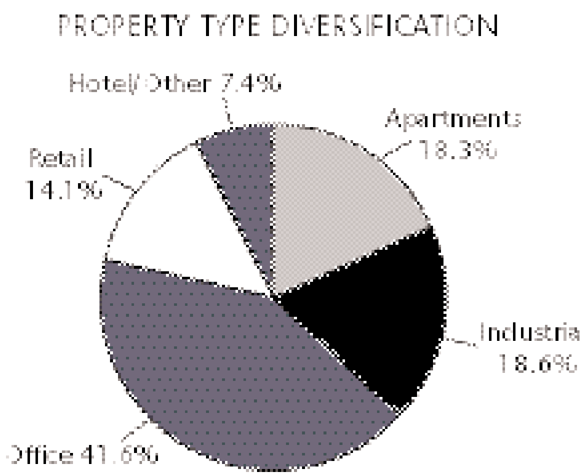
REAL ESTATE

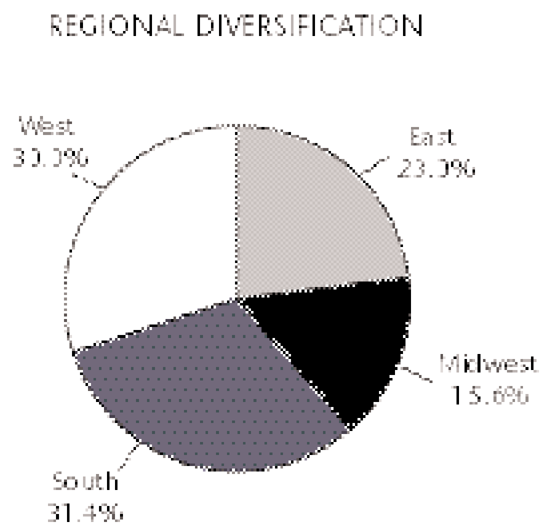
SERS invests in real estate to provide stable long-term rates of returns and to diversify its assets in order to reduce total fund volatility. The real estate portfolio consists primarily of investments in office buildings, shopping centers, apartment communities, and industrial parks as well as shares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

For fiscal 2001, the NCREIF Property Index, a barometer of private US real estate returns, had a total return of 12.0%. During the first half of fiscal 2001, a strong US economy coupled with modest new real estate development provided for healthy real estate markets. Beginning in the second half of fiscal 2001, the US economy slowed and vacancy rates for most property types began to rise modestly. In general, real estate markets are poised for continued solid performance, but not at the same levels experienced over the past five years.

During fiscal 2001, the SERS' real estate portfolio produced a total return of 12.4%. For three-, five-, and ten-year periods, the real estate portfolio produced returns of 11.6%, 11.8%, and 7.6% respectively.





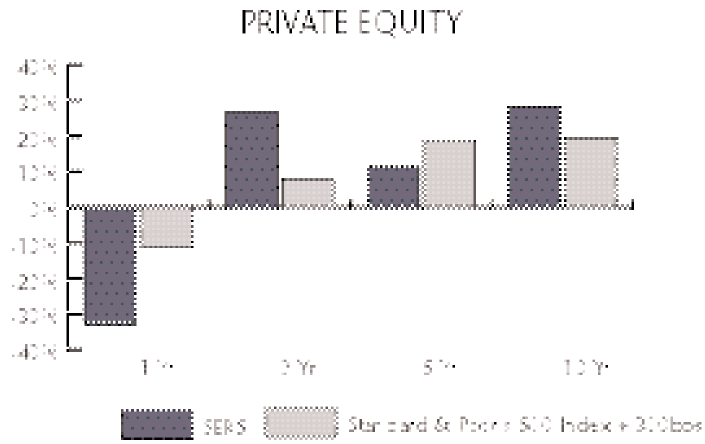


PRIVATE EQUITY

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 year 2001, SERS began to make the commitments necessary to reach the targeted allocation to private equity of 3% of the total fund by the end of fiscal 2003. The Board approved commitments totaling $205 million to seven new private equity funds. These funds are listed in the following table.

During fiscal 2001, the SERS' private equity portfolio produced a total return of (32.7)%. For three-, five-, and ten-year periods, the private equity portfolio produced returns of 27.0%, 11.3%, and 28.2% respectively.



SERS PRIVATE EQUITY COMMITMENTS DURING FISCAL YEAR 2001

Fund	Type of Fund	Commitment
Blue Chip IV	Venture Capital	$ 15,000,000
Goldman Sachs PEP 2000	Fund of Funds	35,000,000
Horsley Bridge VII	Fund of Funds	50,000,000
Horsley Bridge Intl. Fund II	Intl. Fund of Funds	25,000,000
Linsalata IV	Buyouts	25,000,000
Peppertree Fund [1]	Fund of Funds	30,000,000
Morgenthaler VII	Venture / Buyouts	25,000,000
Total		$205,000,000

[1]The Board approved a commitment of $30 million to Peppertree. $20 million was formally committed to with the remaining $10 million commitment dependent on the amount of additional capital raised from other investors.

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

Fuller & Thaler Asset Management – San Mateo, California

Gardner Lewis Asset Management – Chadds Ford, Pennsylvania

Geewax, Terker & Co. – Chadds Ford, 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

Oechsle 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

Brantley Partners – Cleveland, Ohio

CID Equity Partners – Indianapolis, Indiana

Goldman Sachs & Co. – New York, New York

Horsley Bridge Partners – San Francisco, California

Linsalata Capital Partners – Cleveland, Ohio

Peppertree Partners – Cleveland, Ohio

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 Fleming Asset 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 Securities – Radnor, Pennsylvania

INVESCO Realty Advisors – Dallas, Texas

J.P. Morgan Fleming Asset Management, Inc. – New York, New York

Koll Bren Schreiber Realty Advisors – Newport Beach, California

Lend Lease Real Estate – Atlanta, Georgia

Sentinel Real Estate – New York, New York

TimesSquare Real Estate Investors – Hartford, Connecticut

UBS Realty Advisors – Hartford, Connecticut

Master Custodians

Huntington National Bank – Columbus, Ohio

State Street Global Advisors – Boston, Massachusetts

SUMMARY SCHEDULE OF BROKERS' FEES FOR THE YEAR ENDED JUNE 30, 2001

Brokerage fees on US and non-US investment transactions for the fiscal year ended June 30, 2001 were $3,167,761 and $693,317 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**
Merrill Lynch Pierce Fenner	$435,138	10,370,860	$0.042
Jefferies & Co.	357,926	10,404,913	0.034
UBS Paine Webber	265,139	5,360,271	0.049
Instinet	207,606	7,843,671	0.026
National Financial Services	146,946	6,827,684	0.022
Bear, Stearns	132,514	3,813,789	0.035
BNY ESI & Co., Inc.	129,539	4,252,200	0.030
Prudential Securities, Inc.	124,240	2,596,178	0.048
Lehman Brothers	111,239	3,854,210	0.029
Goldman Sachs & Company	100,425	4,911,275	0.020
Cantor Fitzgerald & Co., Inc.	97,638	2,680,941	0.036
Morgan Stanley	90,415	4,834,515	0.019
Spear, Leeds & Kellogg	87,591	2,389,952	0.037
Donaldson, Lufkin & Jenrette	83,080	2,099,075	0.040
Frank Russell Securities	61,928	1,231,983	0.050
Salomon Smith Barney, Inc.	61,702	2,091,483	0.030
Legg, Mason	49,033	985,780	0.050
RBC Dain Rauscher	48,585	1,634,671	0.030
Deutsche Bank Alex Brown, Inc.	45,867	1,522,793	0.030
Credit Suisse First Boston Corp.	36,170	1,345,863	0.027
Sanford C Bernstein & Co	33,261	624,540	0.053
BT Alex Brown	32,323	894,416	0.036
Bancamerica Securities, Inc.	29,582	1,564,653	0.019
ESI Securities	27,258	886,200	0.031
First Union Securities, Inc.	26,112	635,052	0.041
J.P. Morgan Securities	25,079	885,156	0.028
Neuberger and Berman	21,840	436,500	0.050
Brokers' fees less than $20,000 each	299,585	12,282,574	0.024
TOTAL - US	$3,167,761	99,261,198	$0.032

NON-US TRANSACTIONS: **Broker Name**			
Merrill Lynch Pierce Fenner	$131,459	7,580,400	$0.017
J.P. Morgan Securities	50,853	634,784	0.080
Credit Suisse First Boston Corp.	50,516	2,491,936	0.020
Salomon Smith Barney, Inc.	47,014	3,241,209	0.015
Goldman Sachs & Company	46,843	2,109,439	0.022
Deutsche Bank Alex Brown, Inc.	44,629	1,636,121	0.027
Abn Amro Chicago Corporation	42,531	1,448,329	0.029
UBS Paine Webber	40,062	1,969,881	0.020
Lehman Brothers	35,547	2,270,366	0.016
HSBC Capital Markets	29,826	1,455,804	0.020
Credit Lyonnais	28,178	379,002	0.074
Morgan Stanley	20,299	962,263	0.021
Brokers' fees less than $20,000 each	125,560	7,921,708	0.016
TOTAL - Non-US	$693,317	34,101,242	$0.020
GRAND TOTAL	$3,861,078	133,362,440	$0.029

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 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.

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.

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, 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.

School Employees Retirement System of Ohio

ACTUARIAL SECTION

GABRIEL, ROEDER, SMITH & COMPANY
Consultants & Actuaries
3017 Douglas Boulevard • Suite 300 • Roseville, CA 95661 • 916-774-7580

December 3, 2001

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

Dear Board Members:

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

In order to measure progress toward this fundamental objective, SERS has an actuarial valuation performed each year. The 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, 2001 indicates that a contribution rate of 5.46% of payroll for 115,684 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, the post retirement death benefit 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, the post retirement death benefit and the 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 1996-2001. 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.

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, 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, 2001, the value of the health care fund was equal to about 196% 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, F.S.A.
Senior Consultant

Kenneth G. Alberts
Actuarial Consultant

NSL/cml

STATEMENT OF ACTUARY VALUATION AS OF JUNE 30, 2001

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, 2001, 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, 2001 is 4.2%.

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, 2001 is 9.8%. 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 2001, this resulted in a health care reserve of $315.7 million versus a targeted level of $242.2 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 2001, 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. S.B. 270 caps the employer surcharge at 2.0% of each employer's payroll and 1.5% statewide.

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 the valuation were revised as set forth in the Gabriel, Roeder, Smith & Company Review of Actuarial Assumptions dated June 15, 2001 and were adopted for use in the valuation as of June 30, 2001. 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, 2001 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.

The following significant assumptions were used in the actuarial valuation as of June 30, 2001:

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

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

(3) additional projected salary increases ranging from .5% to 20.75% per year, attributable to seniority and merit. Pay increase assumptions for individual active members are shown for service durations in the following table.

Projected Salary Increases

Years of Service	Merit & Seniority	Salary Inflation	Total
0	20.75%	4.25%	25.00%
1	13.25	4.25	17.50
2	10.75	4.25	15.00
3	8.75	4.25	13.00
4	7.75	4.25	12.00
5	5.75	4.25	10.00
6	4.75	4.25	9.00
7	3.75	4.25	8.00
8	2.75	4.25	7.00
9	1.75	4.25	6.00
10-14	0.75	4.25	5.00
15+	0.50	4.25	4.75

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

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

Sample Ages	Men	Women
50	45%	36%
55	30	27
60	11	23
65	35	30
70	25	38
75	100	100

(5) mortality of benefit recipients (other than disabilitants) based on the 1994 Group Annuity Mortality Table with male ages set back three years and female ages set back one year;

(6) rates of separation from active service due to death or disability 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
20	0.03%	0.00%
30	0.05	0.02
40	0.06	0.54
50	0.13	1.10
60	0.39	1.10

Women

Sample Ages	Death	Disability
20	0.02%	0.00%
30	0.02	0.01
40	0.04	0.21
50	0.07	0.52
60	0.21	0.81

(7) rates of separation from active service for reasons other than retirement, disability or death. Sample probabilities are shown in the following table:

Years of Service	Rate of General Termination
0	50.00%
1	24.00
2	14.00
3	9.00
4	8.00
5	7.50
10	4.25
15	2.50
20	1.75

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

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, 2001

Present value of:	Basic Pension	Death Benefit	Medicare Part B	Total
Future benefits to present retirees and survivors	$3,670,197,638	$19,637,834	$199,596,528	$3,889,432,000
Monthly benefits and refunds to present inactive members	252,514,745	977,768	21,059,408	274,551,921
Allowances to present active members:				
Service	4,379,742,097	4,208,098	80,391,707	4,464,341,902
Disability	294,204,807	488,260	2,879,911	297,572,978
Survivor benefits	58,669,876	-	1,490,983	60,160,859
Refunds	(134,032,867)	-	-	(134,032,867)
Total AAL for active members	4,598,583,913	4,696,358	84,762,601	4,688,042,872
Total AAL	$8,521,296,296	$25,311,960	$305,418,537	$8,852,026,793

Active Member Valuation Data, 1996 to 2001

Actuarial Valuation as of June 30	Number of Active Members	Annual Payroll (millions)	Average Annual Salary
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
2001	115,684	1,974.1	17,064

Retirants and Beneficiaries Added To and Removed From Rolls, 1996 to 2001

	Added to Rolls		Removed from Rolls		Rolls at end of year		Percent increase in Annual Allowances	Average Annual Allowances
Year	No.	Annual Allowances	No.	Annual Allowances	No.	Annual Allowances		
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
2001	4,051	30,406,522	3,080	2,555,087	58,795	404,506,861	7.4	6,880

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 Risk Area	**2000***	**1999**	**1998**	**1997**	**1996**	**1995**
Age & Service Retirements If members retire at older ages than assumed, there is a gain. If younger ages, a loss.	$ 27.4	$ 24.4	$ 20.1	$ (8.1)	$ (9.7)	$(13.6)
Disability Retirements If disability claims are less than assumed, there is a gain. If more claims, a loss.	0.5	2.7	(0.2)	(2.4)	(8.9)	(5.1)
Death-In-Service Benefits If claims costs are less than assumed, there is a gain. If more claims, a loss.	(0.4)	(0.7)	(0.0)	0.6	0.2	0.2
Pay Increases If there are smaller pay increases than assumed, there is a gain. If greater increases, a loss.	(22.8)	47.3	50.5	76.1	76.6	(3.4)
Investment Return If there is greater investment return than assumed, there is a gain. If less return, a loss.	465.6	487.7	486.6	256.1	126.4	59.2
Withdrawal If more liabilities are released by other separations from active membership than assumed, there is a gain. If smaller releases, a loss.	(5.7)	(18.0)	(20.0)	3.1	4.3	6.0
Retired Lives If more deaths than assumed, there is a gain. If fewer deaths than assumed, there is a loss.	14.4	1.0	(1.3)	(1.4)	4.2	4.1
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.	(136.2)	(84.6)	(75.9)	(34.2)	(33.5)	(41.9)
Total Gain (Loss) During Year	$342.8	$459.8	$459.8	$289.8	$159.6	$ 5.5

* The results for 2001 are not available at this time.

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)
1996	$1,105	$2,886	$2,193	$4,766	100%	100%	35%
1996 (1,3)	1,105	2,790	2,234	4,777	100	100	39
1997	1,177	2,996	2,332	5,402	100	100	53
1997 (3)	1,177	2,996	2,332	5,521	100	100	58
1998	1,255	3,208	2,474	6,413	100	100	79
1998 (2)	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
2001 (1,2)	1,407	3,889	3,555	8,791	100	100	98

(1) Revised assumptions
(2) Legislated benefit increases
(3) Revised asset valuation method

School Employees Retirement System of Ohio

STATISTICAL SECTION

REVENUES BY SOURCE

Table I

Fiscal Year	Member Contributions	Employer Contributions	Employer Contribution Rate as a Percent of Covered Payroll	Investment Income/(Loss)	Other Revenues	Total
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
2001	192,563,026	331,307,417	14.0	(632,419,714)*	2,660,220	(105,889,051)

*GASB 25 was adopted in 1997. As a result, investment income includes net appreciation (depreciation) in fair value of investments for 1997, 1998, 1999, 2000, and 2001 reduced by investment-related administrative expenses.

EXPENSES BY TYPE

Table II

Fiscal Year	Benefits	Administrative Expenses	Transfers to other Ohio Retirement Systems	Refunds	Total
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
2001	617,167,500	16,004,407*	4,198,302	21,817,451	659,187,660

*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
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
2001	381,682,104	50,904,070	21,128,389	161,439,934	23,830,454	638,984,951

NUMBER OF BENEFIT RECIPIENTS BY TYPE

Table IV

Years Ending June 30	Service	Disability	Survivor	Total
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
2001	49,776	5,052	3,967	58,795

NUMBER OF BENEFIT RECIPIENTS

Table V

Amount of Monthly Benefit	Service	Disability	Survivor	Total
$ 1 — 250	17,103	526	1,693	19,322
251 — 500	12,578	1,313	1,337	15,228
501 — 750	7,731	1,051	519	9,301
751 — 1,000	4,497	756	221	5,474
1,001 — 1,500	4,648	857	142	5,647
1,501 — 2,000	1,811	359	35	2,205
over 2,000	1,408	190	20	1,618
	49,776	5,052	3,967	58,795

RETIREMENT AVERAGES

Table VI

Service Retirement

Year Ending June 30	Service Credit	Monthly Amount	Age	Salary
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
2001	22.128	851.00	62.31	21,125

Disability Retirement

Year Ending June 30	Service Credit	Monthly Amount	Age	Salary
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
2001	20.124	1,123.46	52.35	21,668

SCHEDULE OF AVERAGE BENEFIT PAYMENTS

Table VII

Retirement Effective Dates July 1, 1995 to June 30, 2001	Years Credited Service 5-9	10-14	15-19	20-24	25-29	30+
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
Period 7/1/00 to 6/30/01						
Average Monthly Benefit	$ 306	$ 308	$ 522	$ 707	$ 887	$1,670
Average Final Average Salary*	1,030	1,335	1,593	1,674	1,756	2,474
Number of Retirees	190	326	358	399	696	526

* 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
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
2001	821	59	371	194	49	1	64	77	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 821 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 five directors. Their areas of responsibility are finance, legal and legislation, 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 2.2% 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 $45.50 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.