School Employees Retirement System of Ohio

SERS®

Comprehensive Annual Financial Report
For the Year Ended June 30, 2006

Comprehensive Annual Financial Report

For the Year Ended June 30, 2006
Prepared by SERS Staff
James R. Winfree, Executive Director

School Employees Retirement System of Ohio
300 East Broad Street, Suite 100
Columbus, Ohio 43215-3746
www.ohsers.org

"The mission of SERS is to provide pension benefit programs and services to our members, retirees and beneficiaries that are soundly financed, prudently administered, and delivered with understanding and responsiveness."

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The Retirement Board and Executive Staff

Left to right: *Standing* – Barbara Overholser, James Rossler, Jr., Daniel Wilson, Mark Anderson, Paul Peltier, Barbra Phillips, James Winfree.
Seated – Catherine Moss, Jeannie Knox, Mary Ann Howell.

Left to right: *Standing* – James Winfree, Milo Rouse, Adam Frumkin, Karen Kloss, Robert Cowman.
Seated – Jimmie Kinnan, Lisa Morris, Virginia Brizendine.

SERS RETIREMENT BOARD

President:
Jeannie C. Knox
Term Expires June 30, 2007

Vice President:
Daniel L. Wilson
Term Expires Sept. 28, 2008

Retiree Member:
Mary Ann Howell
Term Expires June 30, 2009

Employee Member:
Mark E. Anderson
Term Expires June 30, 2008

Retiree Member:
Catherine P. Moss
Term Expires June 30, 2008

Employee Member:
Barbara E. Overholser
Term Expires June 30, 2009

Employee Member:
Barbra Phillips
Term Expires June 30, 2009

Appointed Member:
Paul E. Peltier
Term Expires Dec. 2, 2008

Appointed Member:
James A. Rossler, Jr.
Term Expires Nov. 4, 2008

SERS EXECUTIVE STAFF

James R. Winfree
Executive Director

Lisa J. Morris
Deputy Executive Director

Virginia S. Brizendine
Finance Director

Robert G. Cowman
Investments Director

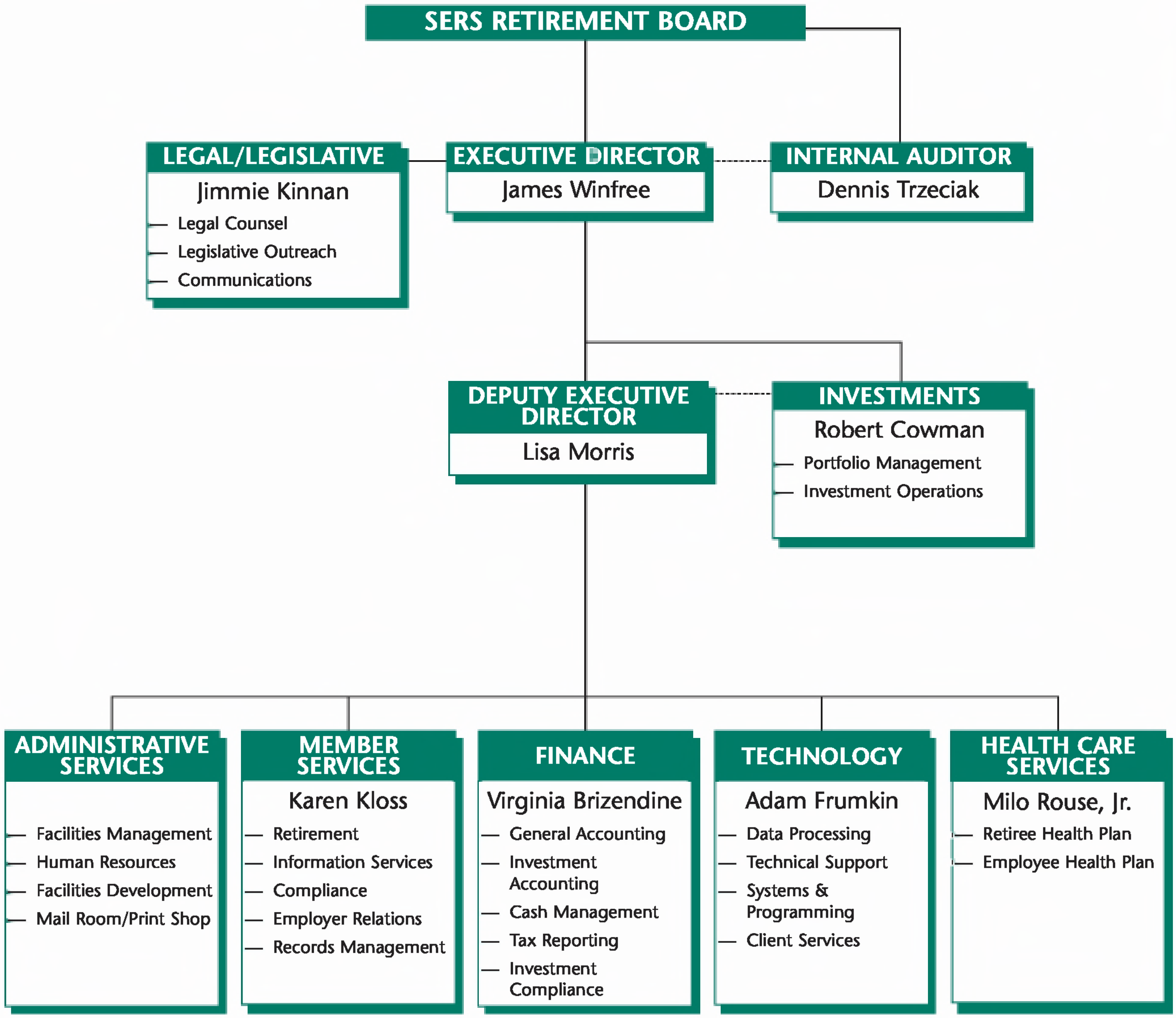
Adam J. Frumkin
Technology Director

Jimmie L. Kinnan
Legal & Legislative Director

Karen G. Kloss
Member Services Director

Milo M. Rouse, Jr.
Health Care Services Director

Organizational Chart



PROFESSIONAL CONSULTANTS

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

Independent Auditor
KPMG LLP – Columbus, Ohio

Actuary
Buck Consultants, LLC – New York, New York

Investment Consultant
Russell Investment Group – Tacoma, Washington

See page 49 for listing of Investment Managers

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, 2005

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

PPC

Public Pension Coordinating Council

Public Pension Standards

2006 Award

Presented to

School Employees Retirement System of Ohio

In recognition of meeting professional standards for plan design and administration as set forth in the Public Pension Standards.

Presented by the Public Pension Coordinating Council, a confederation of

National Association of State Retirement Administrators (NASRA)
National Conference on Public Employee Retirement Systems (NCPERS)
National Council on Teacher Retirement (NCTR)

Alan H. Winkle
Program Administrator

School Employees Retirement System

JAMES R. WINFREE
Executive Director

LISA J. MORRIS
Deputy Executive Director

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VIRGINIA BRIZENDINE
Finance Director

ROBERT G. COWMAN
Investments Director

ADAM J. FRUMKIN
Technology Director

JIMMIE L. KINNAN
Legal & Legislative Director

KAREN G. KLOSS
Member Services Director

MILO M. ROUSE, JR.
Health Care Services Director

December 6, 2006

Dear President and Members of the Retirement Board:

We are pleased to submit the Comprehensive Annual Financial Report of the School Employees Retirement System of Ohio (SERS) for the fiscal year ended June 30, 2006. 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 report is divided into six sections:

- the *Introductory Section* contains the 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* contains the independent auditors' report from our certified public accountants, KPMG LLP, management's discussion and analysis, the financial statements of the System and required supplementary information;
- the *Investment Section* includes the investment report, portfolio performance, and investment policy;
- the *Actuarial Section* has the letter expressing the opinion of our consulting actuaries, Buck Consultants, and the results of their annual actuarial valuation;
- the *Statistical Section* includes significant data pertaining to the System; and
- the *Plan Summary Section* explains membership eligibility and the various benefits that we provide our members.

Established in 1937 by an act of the Ohio General Assembly, SERS provides pensions and benefits to public and charter school employees who are not required to possess a certificate in order to perform their duties. By statute, benefit plans include retirement for age and service or disability; and survivor benefits that are paid upon the death of a member before retirement. A post-retirement health care program is also provided, although it is not required by law. SERS is governed by a Board comprised of elected active members and retirees and appointed experts. Members of the Board receive no compensation for their services other than reimbursement of personal expenses. The term of the office for elected and appointed Board members is four years.

The management of SERS is responsible for the accuracy of the contents and the completeness and fairness of the presentation, including disclosures. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position of the System. All disclosures necessary to enable the reader to gain an understanding of SERS' financial activities have been included. Management has provided a narrative introduction, overview and analysis to accompany the basic financial statements in the form of management's discussion and analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The MD&A can be found immediately following the report of the independent auditors in the Financial Section.

Management has established a system of internal accounting controls to ensure the security of member and employer contributions; and to provide reasonable, but not absolute, assurance that assets are properly safeguarded, transactions are properly executed and that financial statements are reliable. Our independent external auditors have conducted an audit of the basic financial statements in accordance with auditing standards generally accepted in the United States of America. They also have full and unrestricted access to the Board to discuss their audit and related findings concerning the integrity of the financial reporting and adequacy of internal controls.

Major Initiatives and Highlights

In August 2005, we retained Independent Fiduciary Services, Inc. (IFS) to confirm that the investment activities of our investment managers were in compliance with Board requirements. Key areas for the review included the controls over the following: private equity managers, real estate managers, securities lending, manager holdings of traded securities, and cash equitization. IFS found that SERS has implemented a system of controls over the management of its investment portfolios which provides a reasonably strong safety net against material breach of its overall portfolio structure and individual manager constraints. However, IFS had several recommendations to improve and strengthen compliance activities and we have implemented many of them, including the hiring of a compliance officer to identify and resolve compliance issues and to control processes for establishing and maintaining portfolio guidelines.

SERS' first annual *Retiree Benefit Summary* was sent to all service and disability benefit recipients in February. The summary contained information on the amount the retiree contributed, the benefit amount paid from 2001 to 2005, tax withholding amounts, the plan of payment selected by the retiree and the designated beneficiary. The *Summary* was very well received by our retirees and filled a real need to call their attention to keeping their personal information up to date as we received many calls regarding the beneficiary information. We are already working on enhancements for next year's *Summary* which will include the total benefit amount paid from date of retirement.

Based on an idea from a Board member and input from several other Board members, we have revised the Member Record form for all new hires to incorporate a brief description of SERS' benefits plus the mandatory Social Security notification about the Government Pension Offset and Windfall Elimination provisions. The form is perforated so the employer can send SERS one piece of paper and the member keeps the benefit information. A mock-up of the form was tested before hundreds of payroll personnel at Ohio Association of School Business Officials seminars and was extremely well-received.

Also on the employer front, the new website for employers (ESERS) was rolled out in September 2005. The site allows employers to view their account online, send in payroll reports and enter cash remittance reports. This is the first phase of the website, with greater functionality coming online in 2007 which will enable our employers to carry out most transactions with SERS quickly and securely via the Internet. Employers received a guidebook in the mail encouraging them to enroll; over 350 employers had registered to use the site by the end of fiscal 2006.

We continue to focus on preserving and extending the solvency of the Health Care Fund through a number of short and long term initiatives intended to reduce SERS' health care expenses. Premium contribution and plan design changes implemented in January 2006 included an increase in the minimum percentage premium contribution level as well as the premium rates for all of SERS-sponsored health care plans. Co-payments for generic, brand formulary and brand non-formulary prescription drugs were also increased, and coverage for hospital and professional services provided by non-network providers was reduced. SERS also elected to apply for the Medicare Part D Retiree Drug Subsidy available January 1, 2006 for plan sponsors who provide prescription drug coverage to their Medicare-eligible members; by the end of the fiscal year SERS had received more than $11.1 million from the Centers for Medicare and Medicaid Services. SERS, along with other Ohio retirement systems, met with several large hospital systems in Ohio as part of a broad initiative to emphasize to network facilities the importance the retirement systems place on patient safety, increased quality, improved outcomes, and to encourage them to address hospital cost inflation. SERS also engaged a vendor to develop and implement a disease management program for five of its highest cost chronic disease states, and has partnered with the Tobacco Use Prevention and Control Foundation to promote the free Ohio Tobacco Quit Line program to interested members.

Our actuary, Buck Consultants, completed the five-year review of demographic and economic assumptions. Changes in assumptions were adopted by the Board as a result of our changing demographics, and the investment rate of return was reduced from 8.25% to 8.00% to be more in line with investment earning predictions. As a result, we have updated computer programs and benefit calculations. SERS ensured accuracy by extensively testing the new option factors, re-employed retiree interest rates and matching employer contributions, and early retirement incentive program factors.

The initiative that began in 2004 as strategic planning has moved beyond a year of implementation efforts to a focus on organizational development. An on-line culture survey was distributed to employees and we were pleased that 90% of the staff participated. The survey, based on the norms developed from over 700 corporations, measured characteristics in four quadrants: adaptability, mission, involvement and consistency. In March the results were reported to the staff and we outlined the process for analysis and implementation going forward. This survey and our culture vision is the basis for our organizational development plans. We continue to devote time and provide leadership on internal cultural issues that will have a comprehensive effect on performance so that SERS is a consistent high performance organization.

As we reported three years ago, the Ohio Association of Public School Employees (OAPSE) filed suit in July 2003 alleging that the changes to the health care program violated the vested rights of SERS' retirees. SERS' motion to dismiss the suit was granted in January 2004 and in December 2004, the Court of Appeals affirmed the dismissal of the health care related claims. The Ohio Supreme Court dismissed OAPSE's appeal and the case was sent back to the Court of Common Pleas on the issues related to the construction of SERS' home office and salaries and bonuses. In late March 2006, by agreement of OAPSE and the SERS Board, the lawsuit was voluntarily dismissed by agreement of the parties and no further issues remain.

Investments

The primary objective of our investment policy is to assure that the System meets its responsibilities for providing retirement and other benefits. The portfolio is diversified to maximize total return on assets while operating within prudent parameters of risk, to protect principal from severe depreciation during adverse market conditions and to achieve investment results competitive with those of the broad market and of similar funds.

We did not change our asset allocation in 2006, following the recommendation of our investment consultant, the Russell Investment Group. However we made several changes to the pool of investment managers to bring additional diversity to our portfolio. The fair value of the net investments in custody on an accrual basis was $9.96 billion at June 30, 2006, an increase of almost $1 billion from the previous fiscal year. The portfolio returned 13.2%, exceeding our investment policy benchmark of 11.0% and we are pleased to report that each asset class exceeded its benchmark. The strongest sectors of the portfolio were international equities, real estate and private equities.

SERS has hired St. Louis-based consulting firm Summit Strategies Group as its independent investment consultant at its May 18 meeting after an extensive request for proposal and interview process. The firm will assist in the selection, monitoring and evaluation of investment programs and managers. Summit Strategies Group, founded in 1995, currently serves 64 public and private fund clients with aggregate assets of nearly $100 billion.

Funding

SERS' objective is to establish and receive contributions that, when expressed in terms of percent of active member payroll will remain approximately level from one generation to the next; and, when combined with present assets and future investment return will be sufficient to meet present and future financial obligations. The annual actuarial valuation measures the progress toward funding pension obligations of SERS by comparing the actuarial assets to the actuarial liabilities. The actuarial accrued liability for pension benefits on June 30, 2006 increased 5.6% to $12.63 billion; the actuarial value of assets increased 7.3% to $9.54 billion; and, the funded ratio over a 30-year period increased from 74.3% to 75.6%.

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. As a result of the fiscal 2006 actuarial valuation the allocation for basic pension benefits will be increased from 10.58% to 10.68%. The remainder goes toward 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. SERS' actuary reviews the minimum salary subject to the surcharge annually and submits a recommendation for a new amount to the Board. At the January 2005 meeting, the Board voted to accept actuary's recommendation to increase the minimum salary from $27,400 to $35,800 for fiscal year 2006. However, annual earnings while employed does not affect the cost of health care premiums at retirement; instead all retirees and beneficiaries enrolled in the health care program pay a premium based on the date of retirement and/or years of service credit.

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, 2005. This was the twenty-first consecutive year that SERS has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government entity must publish an easily readable and efficiently organized comprehensive annual financial report that satisfies 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 (PPCC) Public Pension Standards Award. The annual award recognizes SERS for excellence in meeting professional standards for plan design and administration. Developed by the PPCC to promote excellence among state and local public retirement systems, the Public Pension Standards are the benchmark for measuring current practices of defined benefit plans. The award is based on compliance with specific principles that underlie retirement system achievements in the areas of benefits, actuarial valuations, financial reporting, investing and disclosure to members.

Acknowledgements

The preparation of this report is the combined effort of the System's staff under the direction of the Retirement Board. It will be mailed to all employer members of SERS and other interested parties and published on our website. 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,

James R. Winfree
Executive Director

Virginia S. Brizendine
Finance Director

Legislative Summary

SERS and its members can be significantly affected by legislation enacted by the Ohio General Assembly and Congress. The impact of legislation and federal regulatory activities on SERS and other public retirement systems has increased in recent years. SERS closely monitors legislative activities and, when appropriate, gives testimony or otherwise educates Ohio legislators, congressional representatives, and regulatory agencies on the impact of these proposals. The following bills either became effective or were introduced this legislative session.

State Legislation

HB 66 (Effective 6/30/05; retirement system provisions 9/29/05)

Enables the Boards of the state retirement systems to retain *independent legal counsel*, including counsel provided by fiduciary insurance carriers, after being informed of an allegation by the Attorney General that the entire Board has breached its fiduciary duty. Another provision requires that any entity required by statute to submit reports to the legislature *submit the reports electronically* and post them to the entity's website.

HB 246 (Effective 3/29/06)

Creates a statutory form for the creation of a *power of attorney* and sets forth the general powers of an attorney in fact under a power of attorney. The state retirement systems requested additional language that would require the authority to refund an account, or elect a retirement plan that does not pay the highest amount possible to the participant.

SB 9 (Effective 4/14/06)

Requires that any person being considered for employment at a public entity, or any company doing business with a public entity in excess of $100,000, complete a form created by the Ohio Department of Public Safety indicating the person or company does not provide assistance to *terrorist organizations*.

HB 9 (Passed by the House 3/15/06)

Creates the office of Public Access Counselor in the Court of Claims, creates a library records commission in each public library and a special taxing district records commission in each special taxing district, allows a concealed carry licensee to prohibit the disclosure of the licensee's information to a journalist, revises the records commissions laws, and eliminates the provision that certain records made by a public accountant incident to an audit of a public office or private entity are not *public records*. The bill is pending in the Senate Judiciary-Civil Justice Committee.

HB 71 (Reported out of House Committee 6/21/05)

Permits a member of the state retirement systems to purchase *military service credit for inactive duty* in the Ohio National Guard or Reserves. The bill awaits passage by the House.

HB 272 (Introduced 5/19/05)

This PERS bill was recommended for passage by the Ohio Retirement Study Council (ORSC) with two amendments that would impact SERS: that *reemployed retirees* at STRS and SERS be similarly required to receive *primary health insurance coverage from their public or private employer*, and that all state retirement systems be granted the authority to establish *voluntary savings accounts* for the payment of health care expenses in retirement. A substitute version of the bill removes the primary health insurance coverage provision, reinstates an annual disability report to the ORSC, and provides a technical correction on board vacancies. The bill is pending in the House Financial Institutions, Real Estate and Securities Committee.

HB 320 (Introduced 8/2/05)

Enables the SERS Board to *set eligibility requirements for the retiree health care program*; makes the development of a defined contribution option for members permissive, rather than required; cuts in half the number of signatures and counties required for a candidate's name to be placed on the ballot for election to an active member Board seat; clarifies procedures for the purchase of service credit for an approved, unpaid leave of absence and sets the maximum allowable purchase at the lesser of five years or the member's contributing time; and clarifies the payment of benefits due when a beneficiary is deceased or cannot be located. The bill was recommended for passage by ORSC with three amendments: that the purchase of service credit for approved, unpaid leaves of absence be capped at two years for each period of leave; that Medicare A equivalent coverage remain mandatory for spouses and surviving spouses of retirees; and that SERS' requested change to make the establishment of a defined contribution option permissive rather than required be deferred until a more up-to-date member survey is conducted in consultation with ORSC. The bill is pending in the House Financial Institutions, Real Estate and Securities Committee.

HCR 20 (Introduced 8/2/05)

Memorializes Congress to reject any legislation that requires *Social Security coverage* for members of the state retirement systems. The concurrent resolution is pending in the House Finance and Appropriations Committee.

Federal Legislation

Pension Legislation (Effective 8/17/06)

HR 4 introduced by Rep. John Boehner (R-OH) – became **Public Law 109-280**. The bill primarily affects the funding of private pensions, but also contains provisions of interest to public plans, including making permanent the pension provisions of the Economic Growth and Tax Relief Reconciliation Act (EGTRRA) of 2001 that enhance portability between 403(b), 457 and 401(k) plans.

Social Security Offset and Windfall

HRES 987 introduced by Rep. Lloyd Doggett (D-TX) – this discharge petition would effectively force **HR 147** out of committee and to the House floor for a vote if signed by a simple majority of Congress (218 members). The resolution was introduced on 9/7/06 and had 120 signatures as of 10/16/06.

HR 147 introduced by Rep. Howard McKeon (R-CA) and **S 619** introduced by Sen. Dianne Feinstein (D-CA) – repeals the government pension offset and windfall elimination penalties. No action has been taken on either bill.

HR 750 introduced by Rep. E. Clay Shaw (R-FL) – one section of this bill reduces the offset penalty from two-thirds to one-third. No action has been taken on the bill.

HR 1690 introduced by Rep. Barney Frank (D-MA) – eliminates the windfall penalty if a recipient's combined monthly Social Security and public pension benefit is $2,500 or less, and provides a graduated penalty over $2,500. No action has been taken on the bill.

HR 1714 introduced by Rep. Kevin Brady (R-TX) and **S 866** introduced by Sen. Kay Bailey Hutchison (R-TX) – eliminates the current windfall provision and replaces it with a formula based on an individual's actual earnings during his/her years of work. No action has been taken on either bill.

S 1799 introduced by Sen. Barbara Mikulski (D-MD) – eliminates the offset penalty if a recipient's combined monthly Social Security and public pension benefit is $1,200, adjusted for inflation. No action has been taken on the bill.

Sudan Divestment

HR 6140 introduced by Rep. Barbara Lee (D-CA) – requires the identification of companies that conduct business operations in Sudan, and would prohibit United States Government contracts with such companies. The bill was referred to the Committee on Financial Services and the Committee on Government Reform on 9/21/06.

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Financial Section

KPMG

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Independent Auditors' Report

The Retirement Board
The School Employees Retirement System of Ohio

and

The Honorable Betty Montgomery
Auditor of State:

We have audited the accompanying statement of plan net assets of the School Employees Retirement System of Ohio (SERS) as of June 30, 2006, and the related statement of changes in plan net assets for the year then ended. These financial statements are the responsibility of SERS' 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of SERS' internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 financial position of SERS as of June 30, 2006, and the changes in its plan net assets for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 5, 2006, on our consideration of SERS' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 18 through 21 and the schedules of funding progress and employer contributions on page 36 are not a required part of the basic financial statements, but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit this information and express no opinion on it.

KPMG

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The financial information included on pages 37 and 38 is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The introductory section on pages 4 through 13, the investments section on pages 40 through 60, the actuarial section on pages 62 through 68, and the statistical section on pages 70 through 81 have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

KPMG LLP

Columbus, Ohio
December 5, 2006

Management's Discussion And Analysis (Unaudited)

This discussion and analysis of the School Employees Retirement System's financial performance provides a narrative overview of financial activities for the fiscal year ended June 30, 2006. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our Letter of Transmittal, which can be found in the Introductory Section of this report.

FINANCIAL HIGHLIGHTS

Items of note include:

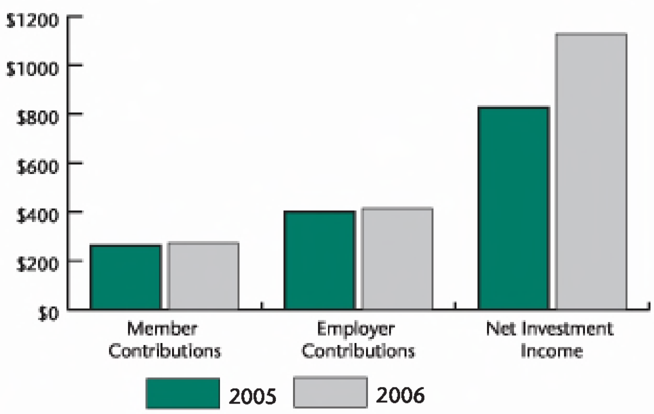
- Total additions to plan net assets were $1.9 billion. Net investment income increased from $826 million in 2005 to $1.1 billion. Employee and employer contributions rose by $52 million.

- Total deductions from plan net assets for fiscal year 2006 totaled $882 million, an increase of 6.1% over fiscal 2005 deductions.

- Total plan net assets increased by $1.0 billion; all funds recorded increases in net assets, except the Qualified Excess Benefit Arrangement (QEBA) Fund.

- There was no change in administrative expenses; however investment expenses, which include investment advisor fees, custodial and record-keeping costs as well as salaries and benefits for investment staff, increased 22.5%.

COMPARATIVE ADDITIONS BY SOURCE
FY 2005 & 2006
(in millions)



OVERVIEW OF FINANCIAL STATEMENTS

Following the management's discussion and analysis are the financial statements: the *Statement of Plan Net Assets* and the *Statement of Changes in Plan Net Assets*. Reviewing these statements, along with the accompanying notes will give the reader a sense of SERS' financial position. SERS' financial statements are prepared using the accrual basis of accounting and are in compliance with applicable Governmental Accounting Standards Board statements.

The *Statement of Plan Net Assets* provides a view at the fiscal year-end of the amount the plans have accumulated in assets to pay for benefits.

The *Statement of Changes in Plan Net Assets* shows what has happened to the plans during the fiscal year. If net assets increased, then additions to the plans were greater than the deductions. If net assets decreased, then additions to the plans were less than the deductions from plans.

The *Notes to Financial Statements* are an integral part of the financial statements and supply additional information that is essential for a full understanding of the data provided. The Notes describe the history and purpose of the plans; significant accounting policies; member, retiree and employer data; and disclose commitments and contingent liabilities that may significantly impact SERS' financial position.

Required Supplementary Information - In addition to the financial statements and notes, certain required supplementary information (RSI) is provided. The *Schedule of Funding Progress* shows on an actuarial basis whether SERS' ability to pay for benefits is improving or deteriorating over time. Also included in the RSI is the *Schedule of Employer Contributions* and a note to the *Schedule of Funding Progress*. Both schedules provide data over the past six years.

Following the RSI is other supplementary information. These schedules include detailed information on investment and administrative expenses incurred by SERS.

CONDENSED SUMMARY OF TOTAL PLAN NET ASSETS
(in millions)

	2006	2005	Change Amount	Change Percent
ASSETS				
Cash	$ 37.4	$ 54.8	$ (17.4)	(31.8)%
Receivables	366.1	515.4	(149.3)	(29.0)
Investments	10,691.5	9,658.3	1,033.2	10.7
Property & Equipment	50.3	51.8	(1.5)	(2.9)
Other Assets	30.7	3.3	27.4	830.3
Total Assets	11,176.0	10,283.6	892.4	8.7
LIABILITIES				
Benefits & Accounts Payable	26.7	23.4	3.3	14.1
Investments Payable	873.5	991.1	(117.6)	(11.9)
Total Liabilities	900.2	1,014.5	(114.3)	(11.3)
Net Assets Held in Trust	$10,275.8	$ 9,269.1	$1,006.7	10.9%

CONDENSED SUMMARY OF CHANGES IN TOTAL PLAN NET ASSETS
(in millions)

	2006	2005	Change Amount	Change Percent
ADDITIONS				
Contributions	$ 761.5	$ 709.2	$ 52.3	7.4%
Net Investment Income	1,127.4	825.8	301.6	36.5
Total Additions	1,888.9	1,535.0	353.9	23.1
DEDUCTIONS				
Benefits	824.6	779.3	45.3	5.8
Refunds & Transfers	38.7	33.2	5.5	16.6
Admin. Expenses	18.9	18.9	–	–
Total Deductions	882.2	831.4	50.8	6.1
Net Increase	1,006.7	703.6	303.1	43.1
Balance, Beginning of Year	9,269.1	8,565.5	703.6	8.2
Balance, End of Year	$10,275.8	$ 9,269.1	$1,006.7	10.9%

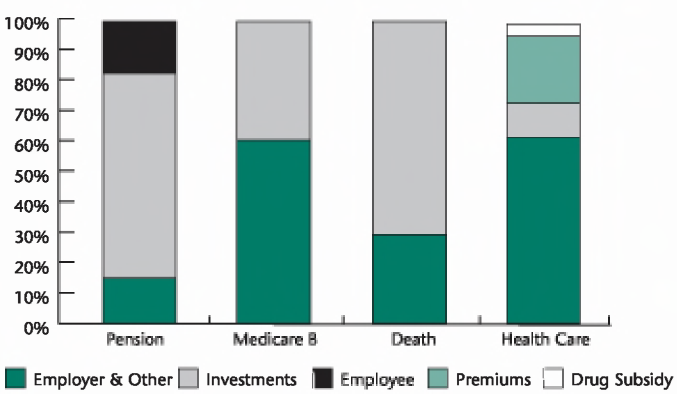
FINANCIAL ANALYSIS

A cost-sharing defined benefit public retirement system, such as SERS, has a long-term perspective on financial activities. Pension benefits are funded on an actuarial basis, not by using today's inflow of contributions from members and employers to pay the pensions of current retirees. Instead, the contributions are set aside for investments that build a base so that members and retirees alike can feel secure that their pension benefits will be available when due. Investment income makes up the largest component of SERS' additions to net assets.

Additions – Benefit payments are funded from one or more of the following sources: employee and employer contributions, retiree health care premiums, the Medicare D drug subsidy, and investment income. The maximum limits for employer (14%) and employee (10%) contribution rates are set by statute; and both contribution rates have reached those maximums. Total plan additions increased by 23%.

SERS is comprised of five separate plans - the Pension Trust Fund, the Medicare B Fund, the Death Benefit Fund, the QEBA Fund and the Health Care Fund. Pension benefits are funded through a combination of employee and employer contributions and investment income. Medicare Part B premium reimbursements and death benefits are funded through employer contributions and investment income. The QEBA is funded by employer contributions. Funding for the health care program comes from employers, retiree premium payments, the federal government (Medicare Part D subsidy) and investment earnings. The accompanying graph labeled *"Additions to Plan Net Assets by Fund"* depicts the proportion that each source adds to the individual fund's assets.

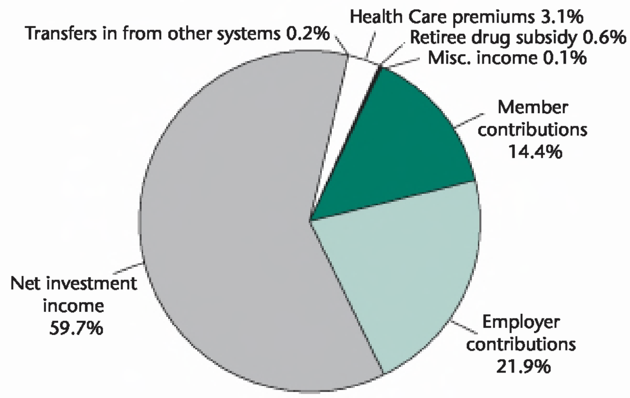
ADDITIONS TO PLAN NET ASSETS BY FUND



Investment net income increased by $301.6 million; it is presented net of investment fees and is comprised of interest, dividends, and realized and unrealized investment gains and losses. Income from interest and dividends increased by $66.2 million. The total portfolio had a net appreciation in fair value of $885.8 million. Total investment expenses increased from $40.1 million to $49.1 million.

In an effort to extend health care coverage through 2010, the Board approved substantial premium increases for retirees and dependents, co-pay increases for brand name prescription drugs and a plan design change for out-of-network managed care effective January 2006. For fiscal year 2006, total premiums paid by retirees increased 45% over the previous fiscal year. SERS enrolled in the federal government's Medicare Part D subsidy program effective January 2006 and has received $11.1 million through the end of SERS' fiscal year.

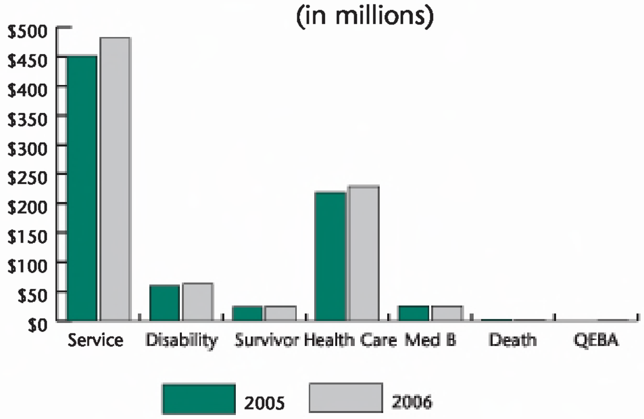
ADDITIONS TO PLAN NET ASSETS



Employer contributions to the Health Care Fund are derived from two sources: an allocation of the employers' 14% contribution and a health care surcharge for members who earn less than a actuarially determined minimum salary. The allocation of the employer's contribution to health care decreased from 3.43% to 3.42% in 2006. The Board approved the actuary's recommendation to increase the minimum salary for calculation of the employer surcharge from $27,400 to $35,800 for fiscal year 2006. Over 85% of SERS' members earn less than the surcharge salary, thus the increase in the surcharge salary limit brings in fewer incremental dollars toward the funding of retiree health care. Also, legislation enacted in 2001 limits the surcharge paid by an individual employer to 2.0% of payroll and also imposes a statewide cap of 1.5% of payroll to lessen the impact of the increase in the surcharge minimum salary. For fiscal year 2006, employer health care surcharge revenue increased 1.3%. Employer contributions increased $31.0 million, which includes $27.4 million from a monthly adjustment of employer contributions from November 2005 through June 2007 to correct a prior period when the assets of the Health Care fund were assigned an assumed rate of return instead of the actual rate of return.

Deductions – Expenses are incurred primarily for the purpose for which SERS was created, the payment of benefits to non-teaching Ohio public and charter school employees. Included in the deductions from plan assets for 2006 were benefit payments, refunds of contributions due to member terminations or deaths, transfers to other Ohio retirement systems to provide benefits for those members who had membership in more than one system, and administrative expenses.

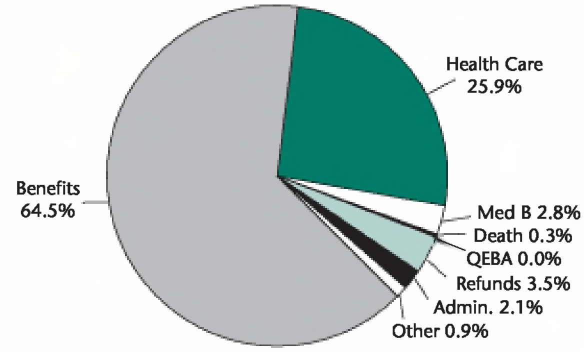
COMPARATIVE BENEFIT PAYMENTS
FY 2005 & 2006
(in millions)



Payments to service, disability and survivor benefit recipients increased by $35.5 million, or 6.4%. Retirees receive an annual 3% cost of living allowance on the anniversary of their retirement date. The balance of the increase in retirement benefits results from a larger number of retirees and an increase in the average annual retirement allowance.

SERS reimburses a portion of the Medicare Part B premium to retirees eligible for SERS' health care program who provide proof of enrollment in Part B. For calendar year 2006, SERS reimbursed $45.50 of the $88.50 monthly Part B premium. Any increase in the Part B reimbursement must be enacted by the Ohio General Assembly. Medicare Part B expense increased 0.4% in fiscal 2006.

DEDUCTIONS FROM PLAN NET ASSETS



SERS pays a $1,000 death benefit to the designated beneficiary of service and disability retirees. Payments of death benefits increased 1.9% in 2006.

Health care expense increased 4.5% from $218.8 million to $228.6 million. The increase came from reimbursements to doctors and hospitals, administrative payments to third party administrators and health maintenance organizations. Total expense for prescription drugs decreased 9.6% as a result of negotiated agreements with the pharmacy benefit manager for improved drug pricing and SERS' 100% retention of drug company rebates.

SERS recognizes the importance of the health care program to our retirees, but it is likely that more changes will be necessary in the future if we are to preserve the program.

REQUEST FOR INFORMATION

This financial report is designed to provide the Retirement Board, our membership, employers and investment managers with a general overview of SERS' finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

School Employees Retirement System
Finance Department
300 East Broad Street, Suite 100
Columbus, Ohio 43215

Statement of Plan Net Assets
As Of June 30, 2006

ASSETS	PENSION TRUST FUND	MEDICARE B FUND	DEATH BENEFIT FUND
Cash and Operating Short-Term Investments	$ 18,812,450	$ 2,778,202	$ 201,577
Receivables			
Contributions			
Employer	114,740,453	7,903,004	519,632
Employee	18,671,951	–	–
Investments Receivable	123,517,738	1,460,375	282,133
Other Receivables	230,319	–	–
Total Receivables	257,160,461	9,363,379	801,765
Investments, at Fair Value			
US Equity	4,196,232,288	49,612,891	9,584,813
Non-US Equity	1,870,592,546	22,116,389	4,272,709
Private Equity	251,120,745	2,969,051	573,597
Fixed Income	1,969,568,339	23,286,599	4,498,784
Real Estate	1,115,386,778	13,187,440	2,547,708
Short-Term	250,194,450	2,958,099	571,481
Total Investments	9,653,095,146	114,130,469	22,049,092
Securities Lending Collateral	669,162,552	7,911,642	1,528,466
Capital Assets			
Land	3,315,670	–	–
Property and Equipment, at Cost	59,902,930	–	–
Accumulated Depreciation	(12,951,178)	–	–
Total Capital Assets	50,267,422	–	–
Prepaids and Other Assets	30,762,471	–	–
TOTAL ASSETS	10,679,260,502	134,183,692	24,580,900
LIABILITIES			
Accounts Payable and Accrued Expenses	1,390,128	23,959	–
Benefits Payable	633,564	11,148	578,243
Investments Payable	174,125,581	2,058,721	397,729
Obligations under Securities Lending	669,162,552	7,911,642	1,528,466
TOTAL LIABILITIES	845,311,825	10,005,470	2,504,438
NET ASSETS HELD IN TRUST FOR PENSION AND OTHER POSTEMPLOYMENT BENEFITS	$ 9,833,948,677	$ 124,178,222	$ 22,076,462

(An unaudited Schedule of Funding Progress is presented on page 36.)

See accompanying notes to the financial statements.

QEBA FUND	HEALTH CARE FUND	TOTAL
$ 7,429	$ 15,574,755	$ 37,374,413
–	88,617,128	211,780,217
–	–	18,671,951
–	2,675,986	127,936,232
–	7,436,832	7,667,151
–	98,729,946	366,055,551
–	90,910,518	4,346,340,510
–	40,526,006	1,937,507,650
–	5,440,480	260,103,873
–	42,670,297	2,040,024,019
–	24,164,627	1,155,286,553
–	5,420,412	259,144,442
–	209,132,340	9,998,407,047
–	14,497,270	693,099,930
–	–	3,315,670
–	–	59,902,930
–	–	(12,951,178)
–	–	50,267,422
–	1,779	30,764,250
7,429	337,936,090	11,175,968,613
–	24,104,493	25,518,580
–	–	1,222,955
–	3,772,394	180,354,425
–	14,497,270	693,099,930
–	42,374,157	900,195,890
$ 7,429	$ 295,561,933	$10,275,772,723

Financial Section

Statement of Changes in Plan Net Assets
For The Year Ended June 30, 2006

ADDITIONS	PENSION TRUST FUND	MEDICARE B FUND	DEATH BENEFIT FUND
Contributions			
Employer	$ 234,875,166	$ 20,535,685	$ 1,054,246
Employee	272,615,865	–	–
Transfers from other Ohio Systems	4,127,669	–	–
Other Income			
Health Care Premiums	–	–	–
Retiree Drug Subsidy	–	–	–
Misc. Income	610,054	62,510	6,889
Total Contributions	512,228,754	20,598,195	1,061,135
Income from Investment Activity			
Net Appreciation in Fair Value	849,156,821	10,636,838	2,020,204
Interest and Dividends	276,159,576	3,459,272	657,003
	1,125,316,397	14,096,110	2,677,207
Investment Expenses	(47,141,377)	(589,863)	(112,046)
Net Income from Investment Activity	1,078,175,020	13,506,247	2,565,161
Income from Securities Lending Activity			
Gross Income	27,723,216	347,271	65,956
Brokers' Rebates	(24,514,189)	(307,073)	(58,321)
Management Fees	(597,051)	(7,470)	(1,419)
Net Income from Securities Lending Activity	2,611,976	32,728	6,216
Total Investment Income, Net	1,080,786,996	13,538,975	2,571,377
TOTAL ADDITIONS	1,593,015,750	34,137,170	3,632,512
DEDUCTIONS			
Retirement Benefits	481,929,589	22,007,666	–
Disability Benefits	62,669,473	1,278,217	–
Survivor Benefits	24,428,704	1,366,754	–
Death Benefits	–	–	2,259,722
Health Care Expenses	–	–	–
	569,027,766	24,652,637	2,259,722
Refunds and Lump Sum Payments	31,037,063	–	–
Transfers to other Ohio Systems	7,715,377	–	–
Administrative Expenses	17,416,738	3,120	55,200
	56,169,178	3,120	55,200
TOTAL DEDUCTIONS	625,196,944	24,655,757	2,314,922
NET INCREASE / (DECREASE)	967,818,806	9,481,413	1,317,590
NET ASSETS HELD IN TRUST FOR PENSION AND OTHER POSTEMPLOYMENT BENEFITS:			
Balance, Beginning of Year	8,866,129,871	114,696,809	20,758,872
Balance, End of Year	$9,833,948,677	$ 124,178,222	$ 22,076,462

See accompanying notes to the financial statements.

QEBA FUND	HEALTH CARE FUND	TOTAL
$ 41,850	$ 157,404,134	$ 413,911,081
–	–	272,615,865
–	–	4,127,669
–	58,683,818	58,683,818
–	11,135,723	11,135,723
9	332,794	1,012,256
41,859	227,556,469	761,486,412
–	23,976,078	885,789,941
–	7,797,409	288,073,260
–	31,773,487	1,173,863,201
–	(1,323,128)	(49,166,414)
–	30,450,359	1,124,696,787
–	782,769	28,919,212
–	(692,162)	(25,571,745)
–	(16,749)	(622,689)
–	73,858	2,724,778
–	30,524,217	1,127,421,565
41,859	258,080,686	1,888,907,977
71,298	–	504,008,553
–	–	63,947,690
–	–	25,795,458
–	–	2,259,722
–	228,570,748	228,570,748
71,298	228,570,748	824,582,171
–	–	31,037,063
–	–	7,715,377
–	1,430,160	18,905,218
–	1,430,160	57,657,658
71,298	230,000,908	882,239,829
(29,439)	28,079,778	1,006,668,148
36,868	267,482,155	9,269,104,575
$ 7,429	$ 295,561,933	$10,275,772,723

Notes To Financial Statements
June 30, 2006

1. 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.

Use of Estimates — In preparing financial statements in conformity with governmental accounting principles generally accepted in the United States of America, SERS' management makes estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates and assumptions. Certain SERS investment assets, such as real estate and private equity, use some estimates in reporting fair value in the financial statements. These estimates are subject to a certain amount of uncertainty in the near term, which could result in changes in the values reported for those assets in the statement of net assets.

Employer Contributions Receivable — SERS recognizes long-term receivables from employers whose contributions are deducted from the money paid to them through the Ohio School Foundation Program, administered by the Department of Education. Employer contributions for fiscal year 2006 will be received by the end of calendar year 2006; the surcharge owed for fiscal year 2006 will be received by the end of calendar year 2007.

Health Care Benefits Incurred and Unpaid — Amounts accrued for health care benefits payable in the Health Care Fund are based upon estimates that have been developed from prior claims experience.

Allocation of Expenses to Plans — Direct expenses are charged to the plan for which they are incurred. All indirect expenses are paid by the Pension Trust Fund and are reimbursed by the Medicare B, Death Benefits and Health Care Funds.

Investments — Investment purchases and sales are recorded as of the trade date. Dividend income is recognized on the ex-dividend date. Other investment income is recognized when earned.

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, REITs 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 currency. Real estate is valued at fair value by the manager or independent appraisers. Private equity is valued at fair value by the respective manager. 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 beginning of the year and the end of the year, less purchases of investments at cost, plus sales of investments at fair value. Investment expense consists of external expenses directly related to SERS' investment operations, as well as the internal administrative expenses associated with SERS' investment program.

The monies held by the Pension Trust, Medicare B, Death Benefit and Health Care Funds are pooled for the purpose of the investment of those plans. Each plan holds units of the investment pool, which are adjusted on a monthly basis. The value of one unit of the Pool on June 30, 2006 was $1,181.953. The unit holdings and value of each of the funds at the close of the fiscal year were:

	Units	Value
Pension Trust Fund	8,139,109.503	$9,620,042,541
Medicare B Fund	96,230.315	113,739,682
Death Benefits Fund	18,590.926	21,973,595
Health Care Fund	176,332.150	208,416,263
Total	8,430,262.894	$9,964,172,081

Office Building, Equipment and Fixtures (Non-Investment Assets) — Office building and equipment and fixtures in excess of $5,000 are capitalized at cost when acquired. Improvements that increase the useful life of the property are capitalized. Maintenance and repairs are charged to expense as incurred. Software costs in excess of $25,000 are also capitalized. Depreciation has been provided using the straight-line method over the following useful lives:

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

Reserves — Ohio Revised Code 3309.60 establishes various reserves to account for future and current benefit payments. The state statute gives these reserves the title of "Funds", but for accounting and reporting purposes they are treated as accounts. These are:

- **The Employees' Savings Account** — Accumulated members' contributions are held in trust pending refund or transfer to a benefit disbursement account.
- **The Employers' Trust Account** — Accumulated employer contributions are held for future benefit payments.
- **The Annuity and Pension Reserve Account** — This reserve contains the monies set aside to pay all annuities and pensions. Money is transferred to this account from the Employees' Savings and Employers' Trust Accounts at the time of retirement.
- **The Survivors' Benefit Account** — Monies in this account are set aside to finance payments to beneficiaries of deceased members. Money is transferred to this account from the Employees' Savings and Employers' Trust Accounts in an amount to fund all liabilities at the end of each year.
- **The Guarantee Account** — Income derived from the investment pool and any gifts or bequests are accumulated in this account. The balance in this account is transferred to other reserve accounts to aid in the funding of future benefit payments and administrative expenses.
- **The Expense Account** — This account provides for the payment of administrative expenses with the necessary money allocated to it from the Guarantee Account.

The chart on the bottom of this page shows the balances of reserve accounts as of June 30, 2006.

2. 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.

Responsibility for the organization and administration of SERS is vested in the Retirement Board. The Retirement Board is the governing body of SERS. As of June 30, 2006 it was comprised of nine members. Four of the nine Board members are elected by the general membership (those who contribute to SERS) and two are elected by retirees. Three members are appointed by the legislature, state treasurer and governor.

RESERVE ACCOUNT BALANCES AS OF JUNE 30, 2006

	Pension Trust Fund	Medicare B Fund	Death Benefits Fund	QEBA Fund	Health Care Fund	Reserve Account Totals
Employees' Svgs Acct.	$2,245,332,115	$ –	$ –	$ –	$ –	**$2,245,332,115**
Employers' Trust Acct.	1,670,307,168	–	–	–	295,561,933	**1,965,869,101**
Annuity and Pension Reserve Acct.	5,540,138,349	124,178,222	22,076,462	7,429	–	**5,686,400,462**
Survivors' Benefit Acct.	252,488,158	–	–	–	–	**252,488,158**
Guarantee Acct.	125,682,887	–	–	–	–	**125,682,887**
Expense Acct.	–	–	–	–	–	**–**
Fund Totals	**$9,833,948,677**	**$124,178,222**	**$22,076,462**	**$ 7,429**	**$295,561,933**	**$10,275,772,723**

Financial Section

Five separate plans comprise the SERS retirement system. The Pension Trust Fund, the Medicare B Fund, the Death Benefit Fund and the Qualified Excess Benefit Arrangement Fund are classified as pension plans for federal tax purposes. The Pension Trust Fund holds the funds to pay the basic retirement benefits authorized under Ohio Revised Code (ORC) 3309. The Medicare B Fund reimburses Medicare premiums paid by eligible retirees and beneficiaries as set forth in ORC 3309.69. The Death Benefit Fund (ORC 3309.50) pays $1,000 to a designated beneficiary upon the death of a retiree. The Qualified Excess Benefit Arrangement (QEBA) Fund was established for retirees whose benefits under SERS' statutes exceed IRS 415(m) limits. Money available for health care benefits is in a separate plan known as the Health Care Fund.

Pension Benefits — Members are eligible for retirement benefits based upon age and service credit as follows: age 60 and earning 5 years of service credit; age 55 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.

Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The current reimbursement amount is $45.50.

A SERS member who is also a member of the State Teachers Retirement System of Ohio (STRS) or the Ohio Public Employees Retirement System (OPERS) may have all deposits, salary and service credit combined for the purpose of determining a greater benefit and earlier eligibility. The system in which the member has the greatest service will calculate the benefit. However, members cannot receive more than one year of total credit for all employment during a twelve month period.

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 at age 65 in either monthly payments (if the monthly amount is $25 or more) or in a lump sum. A refund of the member's contributions, without employer contributions or interest, is available for those who stop working before age 65.

Employer and Employee Membership Data
(as of June 30, 2006)

Employer Members	
Local	373
City	193
Educational Service Center	60
Village	49
Higher Education	15
Vocational/Technical	49
Community Schools	238
Other	6
Total	983
Employee Members and Retirees	
Retirees and beneficiaries currently receiving benefits	62,521
Terminated employees entitled to but not yet receiving benefits	10,183
Total	72,704
Active Employees	
Vested active employees	76,416
Non-vested active employees	46,850
Total	123,266

Health Care Benefits — ORC 3309.375 and 3309.69 permit SERS to offer health care benefit programs to retirees and beneficiaries. SERS' pension benefits are mandated by statute; however SERS reserves the right to change or discontinue any health plan or program.

SERS offers several types of health plans from various vendors, including HMO's, PPO's and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. As of June 30, 2006, of the 57,868 covered benefit recipients and dependents, SERS self-insures 52,212.

Members retiring July 1, 1986 or later must have ten years of service credit to qualify for health care benefits. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 25% for those who qualify. Health care premiums paid by benefit recipients in fiscal years 2006 and 2005 were $58.7 million and $40.6 million, respectively.

The health care program is funded through employer contributions, premium payments and investment earnings. The portion of the employer contribution not required to actuarially fund the pension plans (Pension Trust Fund, Medicare B Fund and Death Benefit Fund) is available for the Health Care Fund. During fiscal year 2006, the amount of employer contributions directed to the Health Care Fund was 3.42% of covered payroll or $90.1 million. An additional $27.4 million of employer contributions was directed to the Health Care Fund to correct a prior period when an assumed rate of return rather than the actual rate was used to determine its investment earnings.

An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2% of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2006, the minimum compensation level was established at $35,800. The surcharge accrued for fiscal year 2006 and included in employer additions on the *Statement of Changes in Plan Net Assets* is $39.9 million.

3. Contributions

The Ohio Revised Code requires contributions by active members and their employers. The Retirement Board establishes contribution rates 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. During fiscal year 2006, active members and their employers were required to contribute 10% and 14%, respectively, of active member payroll.

The Retirement Board, acting with the advice of the actuary, allocates the current employer contribution rate among four plans of the system. For fiscal year 2006, the allocation of the employer contribution rate to pension plan benefits was established as the rate necessary to cover normal cost. Of the 14% contribution rate paid by employers, 10.58% was allocated to the pension plans in the following rates:

Pension Trust Fund	9.76%
Medicare B Fund	.78%
Death Benefit Fund	.04%

During fiscal year 2006, the remaining 3.42% of the 14% employer contribution rate was allocated to the Health Care Fund.

Employer and employee contributions were $372.3 million and $265.7 million, respectively, in 2006. The employee contribution amounts in the financial statements also include employee contributions for purchased service credit.

4. Cash Deposits and Investments

Custodial Credit Risk, Deposits — Custodial credit risk for deposits is the risk that in the event of a bank failure, SERS' deposits may not be returned to it. In accordance with the ORC, the Board of Deposit designates SERS' depository bank and the Ohio Treasurer of State serves as custodian and contracts depository services for all SERS' deposits. Therefore, SERS does not have a policy for custodial credit risk.

At June 30, 2006, the carrying amounts of SERS' operating and investment cash deposits totaled $22,894,897 and the corresponding bank balances totaled $24,529,014. Of the bank balances, the Federal Deposit Insurance Corporation insured $308,793. Also in accordance with the ORC, additional bank balances of $6,575,333 were collateralized at 102% with securities held in the name of SERS' pledging financial institutions. The value collateralized by SERS' pledging financial institutions overlaps with the FDIC insurance by $308,793. The remaining bank deposits of $17,953,681 were uncollateralized.

Custodial Credit Risk, Investments — Custodial credit risk for investments is the risk that in the event of a failure of the counterparty, SERS will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. The Ohio Revised Code assigns the Ohio Treasurer of State as the System's custodian. Therefore, SERS does not have a policy for investment custodial credit risk.

Investments at June 30, 2006	**Fair Value** *(in thousands)*
Commercial Paper	$ 49,271
Commingled - Bonds	407,311
Commingled - Non-US Equity	695,660
Commingled - Short-Term	14,797
Commingled - US Equity	499,491
Non-US Bonds	65,063
Non-US Common and Preferred	1,181,090
Other - Warrants, Rights & Vouchers	10,746
Private Equity	260,104
Private Real Estate	915,881
Real Estate Investment Trusts	239,406
Repurchase Agreements	6,000
US Agency	551,880
US Common & Preferred	3,759,911
US Corporate Bonds	623,910
US Government	59,242
Securities on Loan:	
US Government	$ 205,558
US Agency	288,798
US Corporate Bonds	41,431
Non-US Bonds	1,032
US Common & Preferred	77,938
Non-US Common and Preferred	58,568
Total Investments Fair Value	**$10,013,088**
Securities Lending Collateral Pool	**$ 693,100**

Credit Risk — Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. ORC section 3309.15 and the Board's "Statement of Investment Policy" (adopted October 2005) direct that the funds of the system will be invested following the prudent person standard. This fiduciary standard dictates that the Board consider the probable safety of investments, avoid speculative investments, and invest as persons of prudence, discretion, and intelligence would manage their own affairs. The Board accomplishes this through a combination of internal and external investment professionals.

The following table lists the credit risk of SERS' fixed income portfolio (including external investment pools & money market funds) as of June 30, 2006:

	S&P Credit Quality Rating	**Fair Value** *(in thousands)*
US Corporate Bonds	AAA	$ 153,878
	AA	21,458
	A	121,637
	BBB	205,246
	BB	125,452
	B	25,772
	CCC	5,890
	Not rated	6,008
Total		$ 665,341
Non-US Bonds	AAA	4,602
	AA	4,054
	A	22,602
	BBB	30,302
	BB	2,226
	B	294
	CCC	84
	Not rated	1,931
Total		$ 66,095
Commingled - Bonds	AAA	288,369
	AA	87,721
	BBB	12,134
	BB	19,087
Total		$ 407,311
US Agency	AAA	840,679
US Government	AAA	264,800
Commercial Paper	A-1	49,271
Commingled - Short-Term	A-1	14,797
Repurchase Agreements	A-1	6,000
Total Debt Securities		**$2,314,294**

Concentration of Credit Risk — Concentration of credit risk is the risk of loss attributed to the magnitude of a plan's investment in a single issuer. The

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

Interest Rate Risk — Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. SERS does not have a policy for managing interest rate risk.

At June 30, 2006, SERS holds interest-only strips that had a total fair value of $756,856. These securities are based on cash flows from interest payments on underlying mortgages. Therefore, they are sensitive to prepayments by mortgagees, which may result from a decline in interest rates. The system also holds principal-only strips that had a total fair value of $16,421,377. These principal-only strips are sensitive to interest rate increases that may result from decreasing mortgage prepayments, thus increasing the average maturity of this investment.

The following table lists the effective duration of SERS' fixed income portfolio as of June 30, 2006:

Investment	Fair Value *(in thousands)*	Option Adjusted Duration *(in years)*
US Agency	$ 840,678	2.48
US Corporate Obligations	665,341	4.42
Commingled - Bonds	407,311	5.02
US Government	264,801	4.87
Foreign Obligations	66,095	6.07
Commercial Paper	49,271	0.00
Commingled - Short-Term	14,797	N/A*
Repurchase Agreements	6,000	0.01
Total Debt Securities	$ 2,314,294	3.78

*Not available from our custodial banks, but impact would be immaterial.

Foreign Currency Risk — Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. The system's exposure to foreign currency risk derives from its positions in foreign currency and foreign currency-denominated investments. The system hedges 50% of the fair value of its equities in non-US developed countries.

The portfolio's total exposure to foreign currency risk at June 30, 2006, was as follows:

FOREIGN CURRENCY RISK *(in thousands)*

Currency	Cash & Forward Currency Commitments	Fixed Income	Non-US Equities	Real Estate
Australian Dollar	$ (35,895)	$ –	$ 35,009	$ –
Brazilian Real	145	–	21,889	–
British Pound Sterling	(210,269)	–	184,181	9,748
Bulgarian Lev	–	–	51	–
Canadian Dollar	(50,512)	–	39,936	–
Colombian Peso	4	–	492	–
Czech Koruna	(665)	–	2,092	–
Danish Krone	913	–	5,929	–
Euro	(279,709)	171	360,759	–
Hong Kong Dollar	(11,125)	–	34,316	–
Hungarian Forint	–	–	4,454	–
Indonesian Rupiah	51	–	3,048	–
Israeli Shekel	559	–	1,035	–
Japanese Yen	(179,968)	–	250,842	–
Lithuanian Lats	1	–	23	–
Malaysian Ringgit	–	–	987	–
Mexican New Peso	1,266	25	2,552	–
New Taiwan Dollar	951	–	15,768	–
New Turkish Lira	(42)	–	8,578	–
New Zealand Dollar	4	–	1,239	–
Norwegian Krone	(5,777)	–	20,777	–
Pakistani Rupee	1	–	8,694	–
Philippines Peso	–	–	253	–
Polish Zloty	(398)	–	7,410	–
Romanian Leu	24	–	1,177	–
Singapore Dollar	(6,600)	–	6,467	–
South African Rand	1,582	–	17,139	–
South Korean Won	(16)	–	32,649	–
Swedish Krona	(19,689)	–	22,585	–
Swiss Franc	(53,813)	–	46,807	–
Thailand Baht	4	–	966	–
TOTAL	**$(848,973)**	**$196**	**$1,138,104**	**$9,748**

Financial Section

Derivatives — Derivatives are generally 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 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.

Foreign exchange 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 contracts do not subject SERS to risk due to exchange rate movements since gains and losses on the contracts offset gains and losses on the transactions being hedged. SERS could be at risk for replacing these contracts at current market rates, should the counterparty default. SERS seeks to control this risk through contracting only with counterparties who meet credit guidelines.

The market value of forward foreign currency contracts outstanding at June 30, 2006, was as follows:

Pending Foreign Currency Contracts at June 30, 2006	*(in thousands)*
Forward Currency Purchases	$ (1,525,578)
Forward Currency Sales	1,535,824
Unrealized gain	10,246

A futures contract is a contract to buy or sell units of an index or financial instrument on a specified future date at a price agreed upon when the contract is originated. SERS uses futures contracts 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 2006 to rebalance its asset allocation.

When SERS enters into a futures contract, the broker receives cash or US Government securities equal to the minimum initial margin. Each day thereafter, SERS receives or pays cash to the broker equal to the daily fluctuation in the contract's value. Collateral of 5% of the anticipated fair value is required as a good faith agreement. Only the most liquid equity futures are used by SERS to directly hedge the temporary and transactional cash held in domestic equity portfolios and to rebalance asset allocations between asset classes. The maximum risk from the purchase of a futures contract (long position) is the contract value. The risk from the sales of futures contracts (short positions) depends upon the amount that the contract increases in value.

The following table shows the futures and options positions held at June 30, 2006:

Futures and Options Positions at June 30, 2006	Number of Contracts	Contract Principal
Fixed Income Futures Sold	(290)	$(33,668,125)
Equity Futures Purchased	1,124	126,341,338
Fixed Income Futures Purchased	859	115,741,043
Currency Futures Purchased	163	38,488,825
Fixed Income Purchased Call Options	101	10,113
Fixed Income Written Call Options	(1,032)	(129,938)
Fixed Income Written Put Options	(287)	(138,500)
Equity Purchased Call Options	423	417,713
Currency Purchased Call Options	171,204	82,725
Currency Written Call Options	(575)	(8,963)
Currency Written Put Options	(98)	(47,900)

Securities Lending — SERS participates in two securities lending programs, as authorized by Board policy. SERS receives pro-rated income from participation in the securities lending programs of several commingled funds. SERS has no direct responsibility for these programs and the collateral held by these securities lending programs is not held in SERS' name. Total net proceeds from these commingled funds were $453,163 during fiscal year 2006.

SERS has a securities lending program for the system's directly held equity and REIT investments using Boston Global Advisors (BGA) as a third-party lending agent. SERS also has a securities lending program for directly held fixed income investments using Metropolitan West (MetWest) as a third-party lending agent. Securities are loaned to independent brokers/dealers in exchange for cash collateral equal to approximately 102% of the market value of domestic securities on loan and 105% of the market value of international 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 securities lending program. Total net proceeds from BGA and MetWest were $1,353,174 and $918,441, respectively, during fiscal year 2006.

At June 30, 2006, SERS had no credit risk exposure on the securities lending collateral because the collateral exceeded the value of the securities loaned. Securities on loan at year-end totaled $673,325,469 and total collateral held for those securities was $693,099,930. Under the terms of the lending agreement, SERS is fully indemnified against losses that might occur in the program due to the failure of a broker to return a security that was borrowed where the collateral is inadequate to replace the security. SERS is also indemnified should the borrower fail to pay distributions of earnings on securities lent.

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. The lending agent reinvests the cash collateral in accordance with contractual investment guidelines that are designed to ensure the safety of principal and obtain a moderate rate of return. Earnings generated from the collateral investments, less the amount of rebates paid to the dealers, result in the gross earnings from lending activities, which is then split on a 83/17% basis with BGA and MetWest. SERS is at risk to contribute additional funds should the earnings from the invested SERS collateral not be sufficient to pay the negotiated dealer rebate. At June 30, 2006, the BGA collateral portfolio had an average weighted maturity of 18 days. The MetWest collateral portfolio had an average weighted maturity of 19 days.

Commitments — As of June 30, 2006, unfunded commitments related to the real estate and private equity investment portfolios totaled $669.7 million.

5. Capital Assets (Non-Investment Assets)

(See table at bottom of page.)

6. Pension Plan

For its employees, SERS contributes to the Ohio Public Employees Retirement System (OPERS), a cost-sharing multiple employer public employee retirement system comprised of three separate plans: the Traditional Plan – a defined benefit plan; the Combined Plan – a combination defined benefit/defined contribution plan; and the Member-Directed Plan – a defined contribution plan. Under the authority granted by Section 145 of the Ohio Revised Code, OPERS provides retirement, disability and survivor benefits for the public employees of Ohio. OPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing OPERS, 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

CAPITAL ASSETS ACTIVITY FOR THE YEAR ENDED JUNE 30, 2006:

	Beginning Balance	Additions	Disposals	Ending Balance
Land	$ 3,315,670	$ –	$ –	$ 3,315,670
Office building & improvements	51,848,265	210,781	–	52,059,046
Furniture & equipment	7,457,933	43,663	(626,289)	6,875,307
Computer hardware & software	617,098	260,006	–	877,104
Vehicles	89,974	23,948	(22,449)	91,473
	63,328,940	538,398	(648,738)	63,218,600
Accumulated depreciation	(11,552,647)	(2,047,269)	648,738	(12,951,178)
	$ 51,776,293	**$ (1,508,871)**	**$ –**	**$ 50,267,422**

for miscellaneous employers during calendar year 2006 was 13.55% of covered payroll. As of January 1, 2006 the employee and employer contributions were raised to 9% and 13.8% respectively. The contribution requirements for employees and employers are established and may be amended within statutory limits by the OPERS Board. The payroll for employees covered by OPERS for the year ended June 30, 2006 was $9,588,316; SERS' total payroll was $9,994,405. SERS' contributions to OPERS for the years ending June 30, 2006, 2005, and 2004 were $1,310,626, $1,272,331, and $1,196,963, respectively; equal to the required contributions for each year.

OPERS is permitted to provide post-employment health care benefits, in accordance with state statutes, to retirees and beneficiaries of the Traditional and Combined Plans and to disability recipients. At December 31, 2005, the plans had 381,413 active participants.

A portion of each employer's contribution to OPERS is set aside for the funding of post-employment health care. The current rate is 4.0% of member covered payroll. For the year ended June 30, 2006, approximately $386,900 of employee payroll contributed by SERS to OPERS was the portion used to fund health care. Net assets held in trust at December 31, 2005 for post-employment health care benefits were $11.8 billion.

The actuarial present value of accrued post-employment benefits was determined based on the entry age normal method of funding. Significant actuarial assumptions used in the December 31, 2004 valuation (most recent available) were: an investment rate of return of 8.0%; 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 4.0% and annual pay increases over and above the 4.0% base increase ranging from 0.5% to 6.3%.

7. Compensated Absences

As of June 30, 2006 and 2005, $1,510,090, and $1,383,200, respectively, were accrued for unused vacation and sick leave for the system's employees. The corresponding long-term portion of these liabilities is estimated at $791,275 and $704,987. The net increase of $126,890 from June 30, 2005 included increases of $919,444 and decreases of $792,554. 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 die after five years of service are entitled to receive payment for a percentage of unused sick leave.

8. Self-insured Health Care for Employees

SERS is self-insured for employee benefits for dental, general health and hospitalization. A third-party administrator manages the program. SERS holds a stop-loss policy of $150,000 per employee per year and places a maximum lifetime coverage limit per employee of $2,000,000.

9. 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 QEBA Fund is a qualified entity, created in accordance with IRS 415(m) limits. The Health Care Fund is structured to meet the requirements of IRC Section 105(e).

10. Risk Management

SERS is exposed to various risks of loss including theft or destruction of assets, general liability, employee injuries, and legal challenges to fiduciary decisions. SERS self-insures some risk through deductibles and retention, and purchases insurance for the remainder. For the past three years there has been no reduction in coverage, and no claims have exceeded purchased limits.

11. Contingent Liabilities

On February 1, 2006, a Petition for Damages was filed against multiple defendants, including the School Employees Retirement Board, in the Civil District Court for the Parish of Orleans, State of Louisiana. The suit is captioned *Timothy Ivan Usry et al. v. Baha Towers Limited Partnership et al.* Timothy Usry was employed by MCI from 1991 through 2004, and throughout his employment with MCI, he worked on the premises of Plaza Tower in New Orleans. SERS owned Plaza Tower from 1987 through September 1993. Mr. Usry claimed that during his employment in Plaza Tower he was exposed to high levels of toxic substances, including asbestos and mold, and that as a result of this exposure he contracted mesothelioma. SERS filed its answer on May 26, 2006. While the final outcome of this case cannot be determined at this time, management is of the opinion that the potential liability in this action will not have a material adverse effect on SERS' financial position.

SERS is also a defendant in various other cases relating to claims concerning individual benefits and accounts (denial of disability benefits or domestic relations suits to determine spousal interests). While the final outcome of these lawsuits 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 Pronouncements

In April 2004, the GASB issued Statement No. 43, *Financial Reporting for Post Employment Benefit Plans Other Than Pension Plans*. This Statement establishes uniform financial reporting standards for post employment benefits other than pension plans and supercedes the interim guidance included in Statement No. 26 *Financial Reporting for Post Employment Healthcare Plans Administered by Defined Benefit Plans*. SERS will be required to implement this statement for the June 30, 2007 annual report. Management has not yet determined the impact that this new GASB Statement will have on the Plan's financial statements.

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
1997(1)	$ 6,504	$ 5,521	$ 983	85%	$ 1,552	63 %
1998(2)	7,037	6,413	624	91	1,652	38
1999(3)	7,535	7,332	203	97	1,768	11
2000	8,100	8,281	(181)**	102	1,866	–
2001(2)(4)	9,257	8,791	466	95	1,974	24
2002	9,986	8,879	1,107	89	2,176	51
2003(1)	10,634	8,772	1,862	82	2,302	81
2004	11,251	8,667	2,584	77	2,394	108
2005	11,961	8,893	3,137***	74	2,453	128
2006	12,627	9,542	3,155***	76	2,553	124

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

** At June 30, 2000, valuation assets were in excess of AAL.

*** After change in calculation methods of health care assets, resulting in a $70 million future liability due to Pension plans by the Health Care plan.

(1) After change in asset valuation.
(2) After change in benefit provisions.
(3) After change in normal cost method.
(4) After change in actuarial assumptions.

Schedule of Employer Contributions*

Year Ended June 30	Actuarial Annual Required Contributions	Percentage Contributed
2001	$ 78,459,360	100%
2002	110,795,693	100
2003	181,236,112	100
2004	212,193,468	100
2005	256,046,087	100
2006	294,035,098	97

*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, 2006
Actuarial cost method: Entry age normal
Amortization method: Open basis as a level percent of active member payroll
Remaining amortization period: 30 years
Asset valuation method: 4 year smoothed market, with a limit of the actuarial value of assets to a minimum of 80% and a maximum of 120% of the market value of assets.
Actuarial Assumptions:
- Investment rate of return* - 8.0%
- Projected salary increases* - 4.75% to 25.0%
- Cost of living adjustments - 3% simple

*Includes inflation at 3.50%

See accompanying independent auditors' report.

Schedule of Administrative Expenses
For The Year Ended June 30, 2006

	General Expenses	Investment Related Expenses	Total
Personnel Services			
Salaries	$ 8,652,206	$ 1,342,199	$ 9,994,405
Retirement Contributions	1,130,102	180,524	1,310,626
Insurance	1,454,106	160,424	1,614,530
Total personnel services	11,236,414	1,683,147	12,919,561
Professional Services			
Actuarial Advisors	200,703	–	200,703
Audit Services	176,629	–	176,629
Custodial Banking	139,207	–	139,207
Investment Related	–	4,489,055	4,489,055
Medical	592,303	–	592,303
Technical	1,022,956	140,297	1,163,253
Total Professional Services	2,131,798	4,629,352	6,761,150
Communications			
Postage	585,629	–	585,629
Telephone	132,540	–	132,540
Member / Employer Education	47,591	–	47,591
Printing and Publication	249,736	–	249,736
Total Communications	1,015,496	–	1,015,496
Other Services			
Computer Support Services	845,958	–	845,958
Office Equipment and Supplies	171,471	2,583	174,054
Training	186,103	13,302	199,405
Transportation and Travel	123,395	105,599	228,994
Memberships and Subscriptions	78,289	15,959	94,248
Property and Fiduciary Insurance	288,909	–	288,909
Maintenance	654,279	–	654,279
Administrative Banking Fees	37,009	–	37,009
Ohio Retirement Study Council	35,620	–	35,620
Miscellaneous	53,208	–	53,208
Total Other Services	2,474,241	137,443	2,611,684
Total Administrative Expenses before Depreciation	16,857,949	6,449,942	23,307,891
Depreciation			
Furniture & Equipment	747,495	–	747,495
Building	1,299,774	–	1,299,774
Total Depreciation	2,047,269	–	2,047,269
Total Administrative Expenses	$ 18,905,218	$ 6,449,942	$25,355,160

See accompanying independent auditors' report.

Financial Section

Schedule of Investment Expenses
For The Year Ended June 30, 2006

Description of Expense	Net Assets Under Management June 30, 2006	Direct Fees
US Equity	$ 4,505,250,098	$ 11,262,750
Non-US Equity	1,939,558,351	8,424,014
Private Equity	260,427,573	8,682,523
Fixed Income	2,093,172,588	3,342,857
Real Estate	1,115,771,597	11,004,328
Short-Term	49,762,537	–
Total investment management fees		42,716,472
Administrative Expenses (see page 37)		
Custody service fees		2,000,960
Master recordkeeper fees		1,351,300
Investment consultant and performance analytics fees		1,136,795
Other		1,960,887
Total investment pool administrative expenses		6,449,942
Total investment expenses		$ 49,166,414

Schedule of Payments to Consultants

SERS paid the following non-investment related consulting fees in fiscal 2006:

Actuarial	$ 200,703
Audit	176,629
Legal counsel	116,143
Medical consultant	28,200
Information technology consultants	519,116
Health care consultants	83,489
Other consultants	443,415
Disability exams	564,103
Total	$2,131,798

See accompanying independent auditors' report.

Investment Section

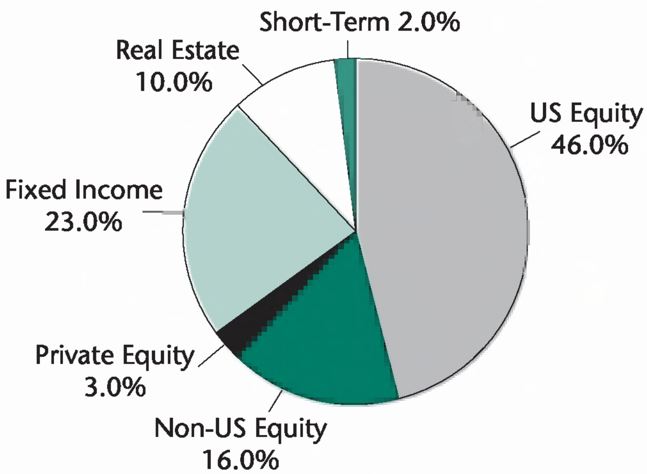
Investment Summary as of June 30, 2006

	Fair Value*	Actual	Target	Range
US Equity	$4,505,250,098	45.2%	46.0%	41% - 51%
Non-US Equity	1,939,558,351	19.5%	16.0%	11% - 21%
Private Equity	260,427,573	2.6%	3.0%	1% - 5%
Fixed Income	2,093,172,588	21.0%	23.0%	20% - 26%
Real Estate	1,115,771,597	11.2%	10.0%	5% - 15%
Short-Term	49,762,537	0.5%	2.0%	0% - 3%
Net Portfolio Value	$9,963,942,744	100.0%	100.0%	

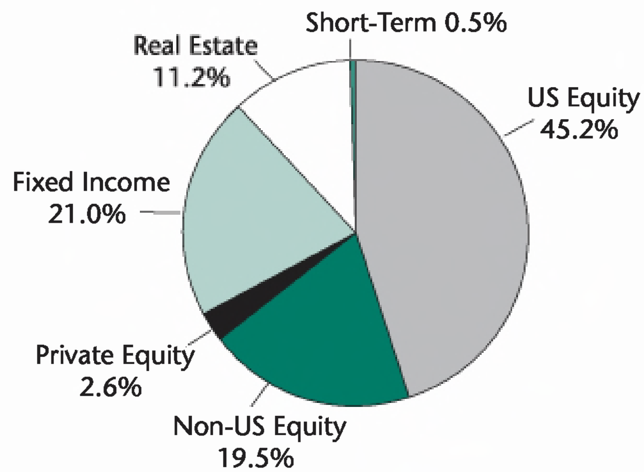
*See Reconciliation to Statement of Plan Net Assets on page 52.

Asset Allocation – Total Fund as of June 30, 2006

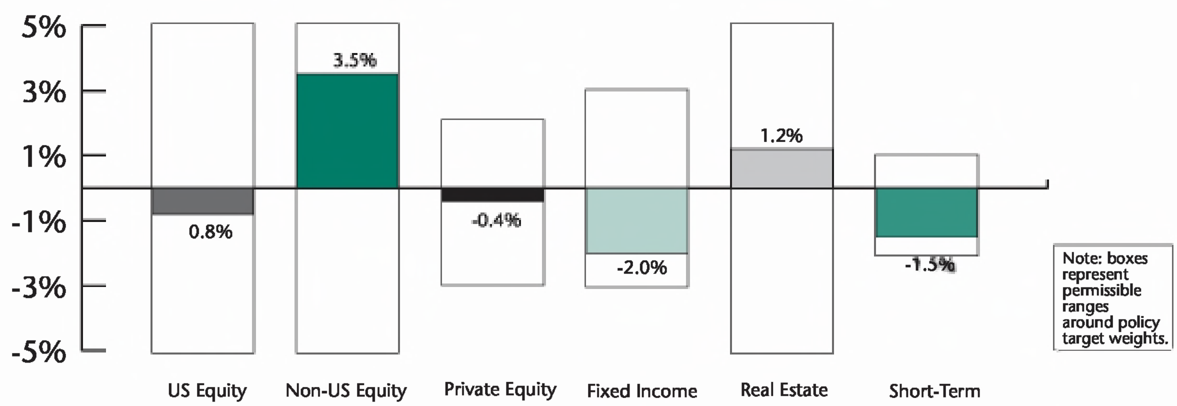
POLICY ALLOCATION



ASSET ALLOCATION



Asset Allocation vs. Policy



School Employees Retirement System

JAMES R. WINFREE
Executive Director

LISA J. MORRIS
Deputy Executive Director

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VIRGINIA BRIZENDINE
Finance Director

ROBERT G. COWMAN
Investments Director

ADAM J. FRUMKIN
Technology Director

JIMMIE L. KINNAN
Legal & Legislative Director

KAREN G. KLOSS
Member Services Director

MILO M. ROUSE, JR.
Health Care Services Director

December 1, 2006

Board of Trustees
Members and Retirees of the Retirement System

On behalf of the SERS Investment Department, I respectfully submit the Investment Section of the Comprehensive Annual Financial Report for the year ended June 30, 2006. Information in this section was compiled by our Investment Staff, SERS' Finance Department and Mellon Analytical Solutions.

The Fund had strong returns again this fiscal year. Each of the asset classes within the Fund outperformed its respective benchmark. Non-US equities, private equities and real estate each had returns over 20% for the fiscal year with non-US equities turning in a 30% return. All of the asset classes contributed positively to the Total Fund return of 13.2% for the fiscal year.

In addition to the strong investment returns, the Investment Department remained very active during the fiscal year.

- The Board approved hiring two public markets managers.
- The Board approved dismissing one public markets manager.
- The Board committed funds to five private equity partnerships.
- The Board committed funds to three real estate funds.

More details about each asset class are included in the write-ups on the following pages.

Investment results provided by Mellon Analytical Solutions are based upon a time-weighted rate of return methodology.

SERS' investment portfolio is diversified by asset class and by manager style. This disciplined investment approach should result in attractive long term returns. The Investment Staff appreciates the opportunity to work for the Retirement Board and SERS' members and retirees. We take the responsibilities of the job very seriously and work very hard to maintain the confidence and trust of the Board and SERS' members and retirees.

Respectfully,

Robert G. Cowman
Director of Investments

Investment Report

Chapter 3309 of the Ohio Revised Code and the Board-adopted Investment Policy govern investment activity at the School Employees Retirement System of Ohio (SERS). The Board is responsible for managing the assets of the Fund effectively and prudently and for the exclusive benefit of its members and beneficiaries.

INVESTMENT POLICY

The purpose of SERS' Statement of Investment Policy is to define SERS' investment philosophy and objectives. The Policy establishes return objectives and risk tolerances within which the Fund is to be managed. The Policy goes on to define the responsibilities of the fiduciaries that implement the strategies and manage SERS' investment portfolio.

INVESTMENT OBJECTIVES

The primary objective of the investment portfolio is to achieve investment returns exceeding the weighted return of our Policy Benchmark within prudent risk parameters. On June 30, 2006, the composition of SERS' policy portfolio and its corresponding benchmark was as follows:

•46% US Equities	– Russell 3000 Index
•16% Non-US Equities	– MSCI-All Country World Free Ex-US Index (developed markets 50% hedged)
• 3% Private Equity	– S&P 500 Index + 3% (one quarter in arrears)
•23% Fixed Income	– Lehman Brothers Aggregate Bond Index
• 2% Short-Term	– CitiGroup 30-Day US Treasury Bill Index
•10% Real Estate	– 80% NCREIF Property Index (one quarter in arrears) & 20% NAREIT Equity Index

INVESTMENT STRATEGIES

Asset Allocation

No changes were made to the asset allocation targets of the Fund during the fiscal year. SERS' investment consultant, Russell Investment Group, conducted a formal asset liability study in FY 2003 and recommended maintaining the current asset allocation targets. Asset liability studies are generally conducted every three to five years unless the Board requests one to be done sooner. The next study is scheduled for FY 2007.

Diversification

Broad diversification within an investment portfolio is used to control the level of risk and volatility within the portfolio. SERS has broadly diversified the assets within its portfolios; and the strategies used within each portfolio have also been diversified.

Besides the broad diversification of assets and strategies within SERS' portfolio, SERS also employs a diverse group of investment managers. The purpose of employing multiple managers for SERS' portfolio is to further reduce risk and volatility within the portfolio.

INVESTMENT PERFORMANCE

Long-Term Investment Performance

Long-term performance continues to compare quite favorably with the SERS' Policy Benchmark Return. Ten year performance for the period ended June 30, 2006 was a positive 8.6% which slightly exceeded the 8.4% Policy Benchmark Return for ten years. Three and five year returns for the Fund were also ahead of the Policy Benchmark Returns for those periods.

The *Schedule of Investment Results* on the following page summarizes fund performance gross of fees versus benchmark performance for the total fund and each asset class over selected periods.

FISCAL YEAR 2006 RESULTS

Strong returns in the non-US equity, private equity and real estate portfolios enabled SERS' Total Fund to return 13.2% for the fiscal year ended June 30, 2006. The 13.2% return of the fund exceeded the 11% return of the Policy Benchmark by 2.2%.

Schedule of Investment Results for the Years Ended June 30

	Annualized Rates of Return							
	2006	2005	2004	2003	2002	3 Years	5 Years	10 Years
US Equity								
SERS (1)*	10.8 %	7.3%	21.4%	0.2%	(15.6)%	13.0 %	3.8%	8.5 %
Russell 3000 Index	9.6	8.1	20.5	0.8	(17.2)	12.6	3.5	8.5
Non-US Equity								
SERS	30.4	19.3	27.6	(8.1)	(11.9)	25.7	10.0	8.2
Custom Non-US Equity Benchmark (2)*	27.8	16.9	27.8	(8.7)	(12.9)	24.1	8.7	7.6
Private Equity								
SERS (3)*	23.2	7.7	8.5	(18.0)	(26.2)	12.9	(2.7)	4.1
Custom Private Equity Benchmark (4)*	14.7	9.7	38.1	(21.8)	(3.1)	20.2	5.7	12.0
Fixed Income								
SERS	0.4	7.0	1.3	11.1	9.1	2.8	5.7	6.7
Lehman Brothers Aggregate Bond Index	(0.8)	6.8	0.3	10.4	8.6	2.1	5.0	6.2
Real Estate								
SERS (5)*	20.7	22.4	13.2	5.6	(1.2)	18.7	11.8	11.8
Custom Real Estate Benchmark (6)*	20.1	19.2	13.2	6.6	6.4	17.4	13.0	12.9
Short-Term								
SERS (7)*	4.4	2.4	1.0	1.3	2.6	2.6	2.3	4.2
CitiGroup 30-Day Treasury Bill Index	4.0	2.0	0.9	1.4	2.3	2.3	2.1	3.5
Total Fund								
SERS (8)*	13.2	10.5	16.5	1.8	(7.8)	13.4	6.5	8.6
Policy Benchmark (9)*	11.0	10.3	16.1	1.7	(7.8)	12.4	5.9	8.4

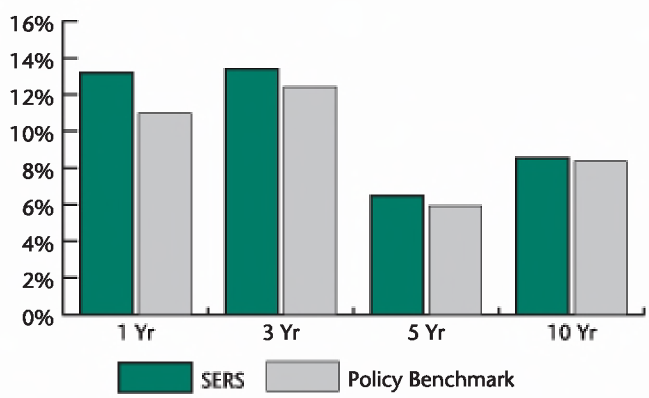
Source: Mellon Analytical Solutions

Investment results provided by Mellon Analytical Solutions are gross-of-fees returns and are based upon a time-weighted rate of return methodology.

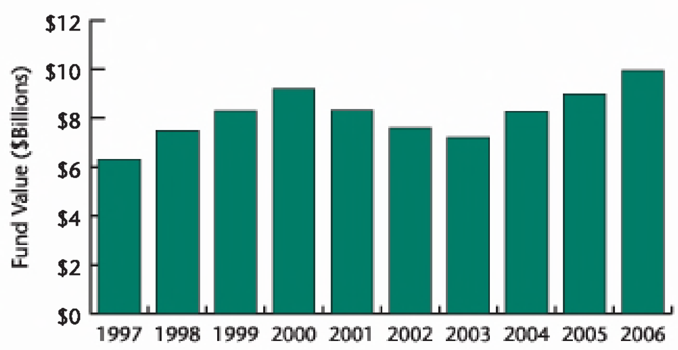
*See footnotes to table on page 52.

Investment Section

Total Fund Rates of Return vs Policy Benchmark



Total Fund at Fair Value



US Equity

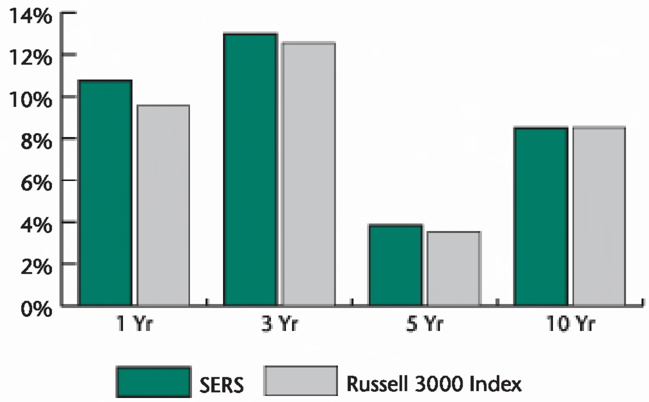
For the fiscal year ended June 30, 2006, the SERS US equity portfolio returned 10.76%, outperforming the benchmark Russell 3000 Index by 1.20%. SERS US equity portfolio has outperformed its benchmark on an annualized basis over the past three years by 0.40% and over the past five years by 0.30%.

The US equity market rose 9.56% this fiscal year compared to one year ago when it gained 8.05%. Despite rising energy prices and economic disruptions from hurricanes Katrina and Rita, corporate earnings remained healthy, and the US stock market was able to post modest gains in the second half of 2005. However, after posting a strong first quarter, US stocks suffered a negative quarter as concerns about inflation and rising interest rates took hold of investors. Large cap stocks held up better than small cap stocks in the last quarter of the fiscal year, apparently on the belief they could best weather the current economic environment.

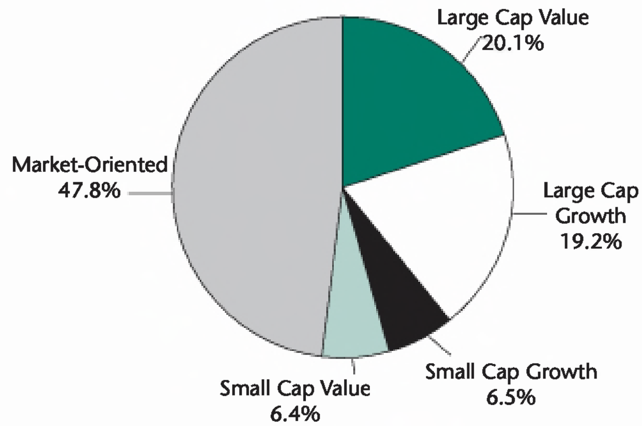
Small capitalization stocks outperformed large capitalization stocks by 5.50% and value outperformed growth by 5.98% during the 2006 fiscal year. However, large cap stocks outperformed small cap stocks during the last quarter of the fiscal year.

Consistent with its annual investment plan, SERS revamped its US passive portfolio to help improve the overall US equity portfolio performance. SERS plans to continue to improve its risk-reward payoff in this asset class by hiring and funding two enhanced index managers in the next fiscal year.

US EQUITY RETURNS



US EQUITY ALLOCATIONS



LARGEST INDIVIDUAL US EQUITY HOLDINGS AS OF JUNE 30, 2006

	Description	Shares*	Market Price	Fair Value
1	Exxon Mobil Corp.	1,497,301	$ 61.35	$91,859,430
2	General Electric Co.	2,598,295	32.96	85,639,813
3	Citigroup, Inc.	1,363,390	48.25	65,781,416
4	Pfizer, Inc.	2,393,335	23.47	56,171,568
5	Procter & Gamble Co.	942,032	55.60	52,376,995
6	Wal-Mart Stores, Inc.	1,008,812	48.17	48,594,490
7	Chevron Corp.	748,232	62.06	46,435,274
8	Bank of America Corp.	960,822	48.10	46,215,523
9	Google, Inc.	98,271	419.33	41,208,126
10	ConocoPhillips	625,727	65.53	41,003,919

All monetary values stated in US dollars.
A complete listing of holdings is available upon request.
**Includes shares owned directly and indirectly via commingled funds.*

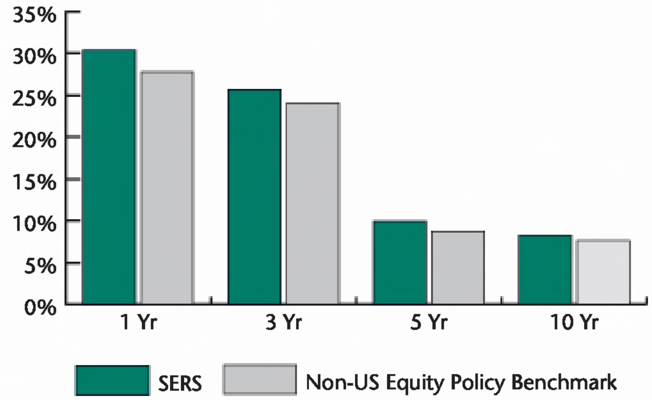
Non-US Equity

For the fiscal year ended June 30, 2006, SERS non-US equity portfolio returned 30.41%, outperforming its policy benchmark (MSCI-All Country World Free Ex-US Index (developed markets 50% hedged) by 2.60%. On an annualized basis, the SERS non-US equity portfolio has outperformed its benchmark by 1.60% over the past three years, by 1.30% over the past five years, and by 0.60% over the past ten years.

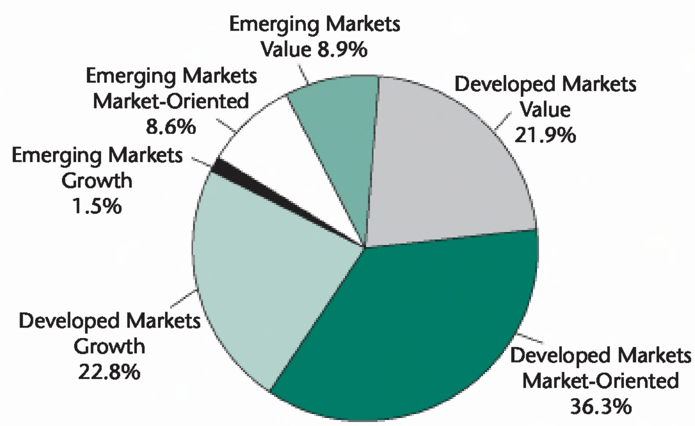
Investors favored overseas stocks during the second half of 2005 and into the first quarter of 2006. Non-US developed markets outperformed the US stock market; and Japan, due to its economic rebound, was a key driver of returns in the second half of 2005. That leadership shifted from Japan to Europe in the first quarter of 2006. The US dollar also strengthened over those two quarters. After three years of strong gains, emerging markets continued to outpace developed markets. Stocks in developed markets rose 27.07% and those in emerging markets rose 35.91% for the fiscal year. Value outperformed growth by 1.00% and small cap non-US stocks outperformed their large cap counterparts by 1.38% during the fiscal year. As the fiscal year ended, investors became increasingly risk averse, causing emerging markets and non-US small cap stocks to post negative returns for the second quarter of 2006.

During the fiscal year SERS maintained its style- and cap-neutral strategy. The Board approved the hiring of two active currency managers during the fiscal year. Neither currency manager had been funded by the end of the fiscal year.

NON-US EQUITY RETURNS



NON-US EQUITY ALLOCATIONS



Investment Section

LARGEST INDIVIDUAL NON-US EQUITY HOLDINGS AS OF JUNE 30, 2006

	Description	Country	Shares*	Market Price	Fair Value
1	Mitsubishi UFJ Financial Group, Inc.	Japan	1,202	$13,996.41	$16,825,441
2	GlaxoSmithKline PLC	United Kingdom	571,854	27.95	15,981,423
3	ING Groep NV	Netherlands	391,886	39.29	15,398,345
4	Total SA	France	226,843	65.79	14,923,217
5	BP PLC	United Kingdom	1,195,507	11.66	13,941,297
6	Roche Holding AG	Switzerland	83,992	164.98	13,857,024
7	Toyota Motor Corp.	Japan	262,580	52.40	13,758,952
8	Takeda Pharmaceutical Co., Ltd.	Japan	206,834	62.28	12,882,477
9	Novartis AG	Switzerland	228,454	54.04	12,345,821
10	AstraZeneca PLC	United Kingdom	196,989	60.37	11,892,063

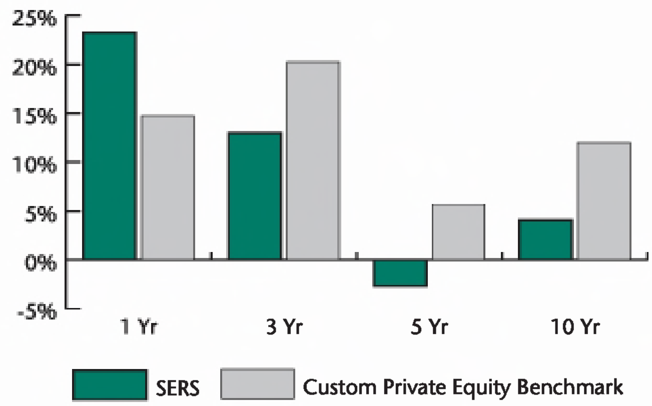
All monetary values are stated in US dollars.
A complete listing of holdings is available upon request.
**Includes shares owned directly and indirectly via commingled funds.*

Private Equity

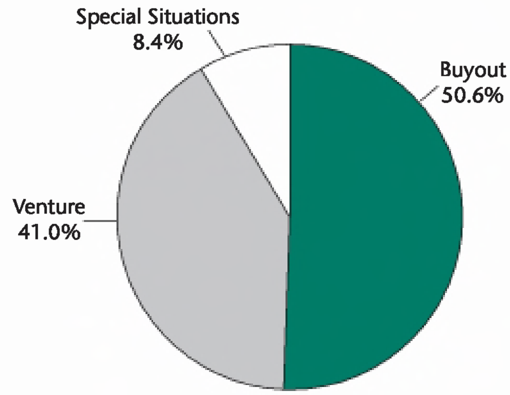
SERS invests in private equity to provide returns in excess of those provided by stocks, bonds, and real estate. Private equity consists of investments in venture capital limited partnerships, buyout limited partnerships, and other "non-public" investments. Private equity also includes investments in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

SERS' target allocation to private equity is 3% of the total fund. As of June 30, 2006, SERS' private equity portfolio was $260.4 million, or 2.6% of the total fund. Unfunded commitments to private equity partnerships totaled $576 million at fiscal year end. Over the past fiscal year, SERS' closed on commitments to five private equity partnerships totaling $233 million. Approximately $68 million was committed to buyout funds, $90 million to venture capital funds and $75 million to distressed debt funds. SERS private equity portfolio is in the early stages of the investment life cycle, therefore current returns are not indicative of expected long-term performance results.

PRIVATE EQUITY RETURNS



ALLOCATION BY STRATEGY



LARGEST INDIVIDUAL PRIVATE EQUITY HOLDINGS AS OF JUNE 30, 2006

	Description	Fair Value
1	GS Private Equity Partners 2002-Manager Fund, LP	$ 19,189,592
2	The Peppertree Fund, LP	18,402,690
3	Horsley Bridge Fund VII, LP	16,398,309
4	Horsley Bridge International Fund II, LP	15,464,011
5	GS Private Equity Partners 2000-Manager Fund, LP	15,039,802
6	Morgenthaler Venture Partners VII, LP	15,010,751
7	Linsalata Capital Partners IV, LP	12,956,286
8	Primus Capital Fund V, LP	12,681,878
9	J.P. Morgan European Pooled Corporate Finance Institutional Investors Fund II, LLC	11,289,972
10	Odyssey Investment Partners Fund III, LP	8,536,373

All monetary values are stated in US dollars.
A complete listing of holdings is available upon request.

Fixed Income

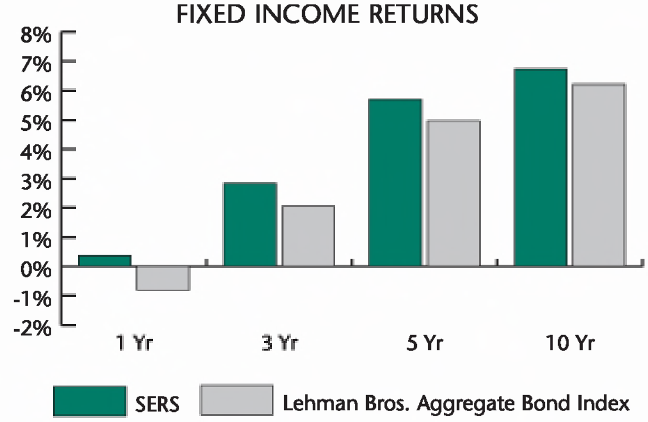
SERS' fixed income portfolio is comprised principally of low-risk, high-quality debt securities. The portfolio is managed by a diverse group of top-tier active bond managers employing proven investment strategies to help SERS meet its goals and objectives.

Fixed income returns were lower than returns in all other asset classes. For the fiscal year ending June 30, 2006, SERS' fixed income portfolio outperformed the benchmark, Lehman Bros. Aggregate Bond Index, by 120 basis points, returning 0.40% against the index return of *minus* 0.80%. SERS' fixed income managers strategically underweighted government bonds (treasuries and agencies) and mortgage-backed securities, and slightly overweighted corporate bonds and commercial mortgages. The portfolio maintained an average Moody quality rating of AA2 or higher.

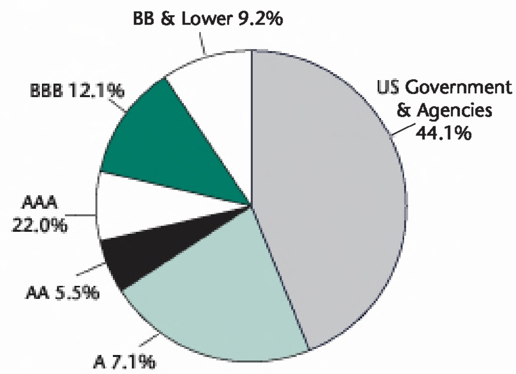
The yield curve continued to flatten during the fiscal year, as the spread between 30-day and 10-year yields compressed from roughly 110 basis points to about 40 basis points. Much of the yield compression was due to 200 basis points of continued tightening by the Federal Reserve. SERS' investment managers collectively eased their defensive duration positions by 3 to 8 months before year end. Extended sectors such as high yield and emerging market debt provided few opportunities as spreads generally were tight across those sectors.

Year end allocations to core, core plus and intermediate duration strategies were 26.4%, 53.4%, and 20.2%, respectively, reflecting an increase to core plus of 17.1%, and a reduction to intermediate by 8.4%. No investment policy changes affecting fixed income occurred this fiscal year.

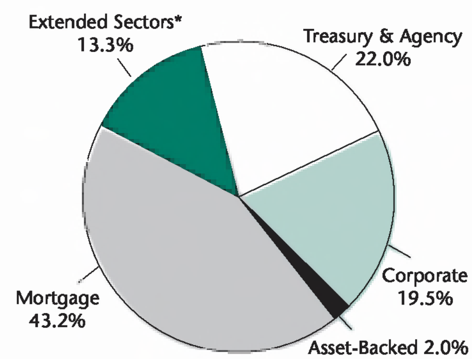
FIXED INCOME RETURNS



QUALITY DISTRIBUTION



SECTOR ALLOCATIONS



*High yield (rated BB and lower) corporate issues are included in Extended Sectors.

LARGEST INDIVIDUAL FIXED INCOME HOLDINGS AS OF JUNE 30, 2006

	Description	Rating	Shares/ Par Value	Market Price	Fair Value
1	Western Asset Mgmt. Mortgage Backed Securities Portfolio	AAA	24,994,891	$10.36	$259,072,043
2	Wellington Trust Co. Core Bond Plus/MBS Pool	AA+	7,581,766	11.57	87,721,035
3	Western Asset Mgmt. Opportunistic International Investment Grade Portfolio	AAA	1,370,363	21.38	29,296,441
4	FNMA TBA 4.5% 8/01/2021	AAA	28,000,000	94.47	26,451,600
5	US Treasury Notes 2.25% 2/15/2007	AAA	26,340,000	98.18	25,860,612
6	US Treasury Notes 4.375% 5/15/2007	AAA	21,000,000	99.26	20,844,600
7	FNMA Pool #0735503 6.00% 4/01/2035	AAA	19,916,568	98.56	19,630,168
8	Western Asset Mgmt. Opportunistic US Dollar High Yield Portfolio	BB-	1,288,639	14.81	19,087,319
9	US Treasury Notes 3.25% 1/15/2009	AAA	19,000,000	95.59	18,162,100
10	FNMA Pool #0725206 5.50% 2/01/2034	AAA	18,015,370	96.30	17,348,081

All monetary values are stated in US dollars. A complete listing of holdings is available upon request.

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. SERS' real estate portfolio consists primarily of investments in office buildings, shopping centers, apartment communities, and industrial facilities as well as shares of publicly traded real estate investment trusts (REITs).

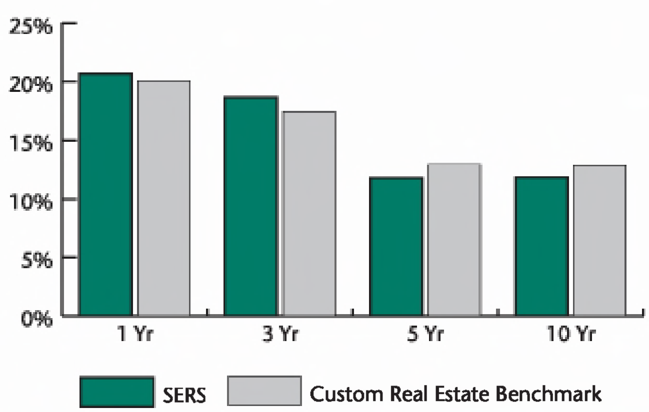
SERS' target allocation to real estate is 10% of the total fund with a range of +/-5%. As of June 30, 2006, the real estate portfolio was $1.1 billion, or 11.2% of the total fund. Unfunded commitments to real estate funds totaled $91.6 million at fiscal year end. During the past fiscal year, SERS made commitments to three real estate funds totaling approximately $98 million. The three funds targeted value added strategies in the US and UK.

Globally, real estate remained an attractive investment alternative to other asset classes in fiscal year 2006, which kept investor demand high and capital markets healthy. Property fundamentals such as occupancy and rental rates improved across all sectors and construction levels remained in check due to higher construction costs. Growth markets, especially coastal US and Asia, attracted the most attention and capital from investors during the period.

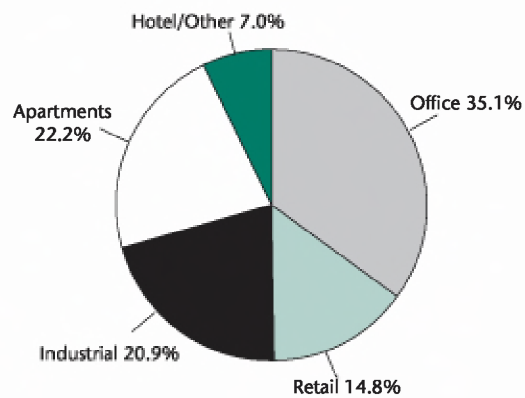
For fiscal year 2006, private real estate assets as measured by the NCREIF Property Index (one quarter in arrears) returned 20.2%. This performance is well above the historical annual average of 9.9% since 1978. The hotel sector posted the highest return for the period at 21.3%. The four remaining sectors of the NCREIF Property Index, which include retail, office, industrial and apartment, posted double-digit returns for fiscal year 2006. On the public side, REITs, as measured by the NAREIT Equity Index, returned 19.1% during the fiscal year.

During the fiscal year, SERS' real estate portfolio produced a total return of 20.70% vs. the custom real estate benchmark return of 20.10%. For three-, five-, and ten-year periods, the real estate portfolio produced returns of 18.70%, 11.80%, and 11.80% respectively. All returns, except REITs, are reported one quarter in arrears.

REAL ESTATE RETURNS



PROPERTY TYPE DIVERSIFICATION

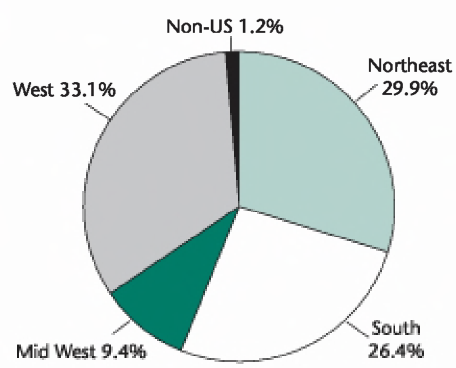


LARGEST INDIVIDUAL REAL ESTATE HOLDINGS AS OF JUNE 30, 2006

	Description	Fair Value
1	UBS Realty Separate Account	$144,333,902
2	J.P. Morgan Strategic Property	124,047,144
3	ING Clarion Lion Properties Fund	121,120,337
4	RREEF America II	112,628,776
5	Prudential RISA	59,820,756
6	Blackrock Strategic Apartment Fund	56,629,839
7	Prudential RISA II	53,194,359
8	ING Clarion Lion Industrial Trust	52,880,177
9	Invesco Realty	39,987,882
10	Invesco Takeover Account	37,753,526

All monetary values are stated in US dollars.
A complete listing of holdings is available upon request.

GEOGRAPHIC DIVERSIFICATION



Investment Consultant & Investment Managers

Investment Consultant
- Russell Investment Group

Investment Managers – US Equity
- Aronson + Johnson + Ortiz
- Delaware Investments
- DePrince, Race & Zollo
- Dodge & Cox, Inc.
- Duncan-Hurst Capital Management, Inc.
- Fuller & Thaler Asset Management, Inc.
- Geewax, Terker & Co.
- Jacobs Levy Equity Management
- Lord, Abbett & Co.
- LSV Asset Management
- Montag & Caldwell Investment Counsel
- Penn Capital Management
- Renaissance Investment Management
- State Street Global Advisors

Investment Managers – Non-US Equity
- Acadian International
- Alliance Capital Management
- Arrowstreet Capital
- AXA Rosenberg Investment Management
- Fuller & Thaler Asset Management, Inc.
- GlobeFlex Capital
- Julius Baer Investment Management, Inc.
- LSV Asset Management
- McKinley Capital Management, Inc.
- Mondrian Investment Group, Inc.
- Morgan Stanley Investment Management Limited
- Pictet International Management Limited
- State Street Global Advisors
- TT International Advisors, Inc.
- Walter Scott & Partners Limited

Investment Manager – Futures
- Frank Russell Securities

Investment Manager – Foreign Currency
- State Street Global Advisors

Investment Managers – Private Equity
- Alpha Capital Partners
- Blue Chip Venture Company
- Blue Point Capital Partners
- Brantley Partners
- CID Equity Partners
- Cinven Limited
- Evergreen Pacific Partners
- FdG Associates
- FS Equity Partners
- Goldman Sachs & Co.
- Graham Partners, Inc.
- Horsley Bridge Partners
- J.P. Morgan Investment Management, Inc.
- Kohlberg & Co.
- Linsalata Capital Partners
- Mason Wells Private Equity
- Morgenthaler Venture Partners
- Odyssey Investment Partners
- Peppertree Partners
- Performance Equity Management
- Primus Venture Partners
- Swander Pace Capital Partners
- Transportation Resource Partners

Distribution Manager – T. Rowe Price

Investment Managers – Fixed Income
- Dodge & Cox, Inc.
- Goldman Sachs & Co.
- Johnson Investment Counsel, Inc.
- Wellington Management Company
- Western Asset Management Company

Investment Managers – Real Estate
- AEW Capital Management
- BlackRock Realty
- The Carlyle Group
- CB Richard Ellis Investors
- Fillmore Capital Partners
- ING Clarion Real Estate
- INVESCO Realty Advisors
- J.P. Morgan Investment Management, Inc.
- K.G. Redding & Associates
- Koll Bren Schreiber Realty Advisors
- Prudential Real Estate Investors
- RREEF Real Estate Investment Managers
- UBS Realty Investors
- Urdang Securities Management

Master Custodians
- Huntington National Bank
- State Street Corp.

Master Recordkeeper
- Mellon Global Security Services

Investment Analytics
- Mellon Analytical Solutions

Summary Schedule of Brokers' Fees for US Equity Transactions for the Year Ended June 30, 2006

Brokerage fees on US equity transactions for the fiscal year ended June 30, 2006:

Broker Name	Fees Paid	# of Shares Traded	Avg. Commission per Share
Merrill Lynch, Pierce, Fenner & Smith, Inc.	$ 445,226	11,433,216	$ 0.039
Investment Technology Group, Inc.	343,343	36,570,433	0.009
Liquidnet, Inc.	136,432	6,821,610	0.020
Lehman Brothers, Inc.	119,385	5,279,526	0.023
UBS Securities, LLC	100,850	3,147,778	0.032
Bear Stearns and Co., Inc.	99,527	2,223,279	0.045
Jefferies and Co., Inc.	96,754	3,492,424	0.028
Credit Suisse Securities, LLC	91,916	11,556,560	0.008
Goldman, Sachs and Co.	91,284	5,460,683	0.017
Cantor Fitzgerald and Co., Inc.	73,331	2,627,607	0.028
Prudential Equity Group	71,291	1,766,698	0.040
Suntrust Capital Markets, Inc.	68,007	1,467,290	0.046
B-Trade Services, LLC	61,562	3,363,767	0.018
Banc of America Securities, Inc.	60,955	1,869,560	0.033
Jones and Associates, Inc.	59,979	1,837,264	0.033
Instinet Clearing Services, Inc.	57,711	2,956,755	0.020
Morgan Stanley and Co., Inc.	56,839	1,950,414	0.029
CitiGroup Global Markets, Inc.	55,478	2,101,480	0.026
Deutsche Bank Securities, Inc.	50,173	3,346,895	0.015
Bank of New York	42,653	1,896,691	0.022
Weeden and Co.	42,120	1,958,733	0.022
BNY ConvergEx Group, LLC	40,041	995,660	0.040
Bridge Trading Co.	35,253	2,178,902	0.016
La Branche Financial Services, Inc.	34,412	1,581,340	0.022
Raymond, James and Associates, Inc.	32,209	830,765	0.039
Wachovia Securities, LLC	30,008	673,282	0.045
J.P. Morgan Securities, Inc.	26,767	1,050,703	0.025
Fidelity Capital Markets	24,306	1,331,100	0.018
Guzman and Co.	17,157	857,853	0.020
Merriman Curhan Ford and Co.	16,529	552,340	0.030
Miller Tabak and Co., LLC	16,498	1,180,659	0.014
National Financial Services, LLC	16,291	747,575	0.022
Keefe, Bruyette and Woods, Inc.	15,894	382,760	0.042
JMP Securities, LLC	15,111	410,460	0.037
Needham and Co.	14,959	419,993	0.036
Stifel Nicolaus Co.	14,941	336,060	0.044
Institutional Direct , Inc.	14,939	377,654	0.040
RBC Dain Rauscher, Inc.	14,838	335,165	0.044
McDonald Investments, Inc.	14,038	330,142	0.043
Green Street Advisors, Inc.	13,938	271,390	0.051
CIBC World Markets Corp.	13,750	690,750	0.020
Rosenblatt Securities, Inc.	13,711	685,550	0.020
Thinkequity Partners, LLC	13,276	466,720	0.028
Brokers less than $13,000 (140)	442,963	14,630,289	0.030
Total US	$3,116,645	144,445,775	$ 0.022

Summary Schedule of Brokers' Fees for Non-US Equity Transactions for the Year Ended June 30, 2006

Brokerage fees on non-US equity transactions for the fiscal year ended June 30, 2006:

Broker Name	Fees Paid	# of Shares Traded	Avg. Commission per Share
Merrill Lynch, Pierce, Fenner & Smith, Inc.	$ 263,251	17,365,961	$ 0.015
Credit Suisse Securities, LLC	205,195	117,319,045	0.002
CitiGroup Global Markets, Inc.	155,449	86,073,641	0.002
UBS Securities, LLC	148,399	305,411,365	0.001
Goldman Sachs and Co.	124,481	24,814,812	0.005
Bear Stearns and Co., Inc.	103,960	23,301,503	0.004
Deutsche Bank Securities, Inc.	98,858	6,567,582	0.015
Cowen & Company, LLC	89,861	6,319,134	0.014
Pershing Securities Ltd.	87,316	4,714,115	0.019
J.P. Morgan Securities, Inc.	86,405	99,396,159	0.001
Morgan Stanley and Co., Inc.	81,283	11,643,693	0.007
Investment Technology Group, Inc.	74,281	11,936,935	0.006
Nomura Securities International, Inc.	70,913	8,433,316	0.008
Credit Lyonnais Securities, Inc.	62,506	23,172,297	0.003
Lehman Brothers, Inc.	58,654	3,190,997	0.018
MacQuarie Securities Ltd.	34,800	2,970,770	0.012
Brockhouse and Cooper, Inc.	33,062	591,378	0.056
ABN Amro Securities, Inc.	31,446	1,999,779	0.016
Credit Agricole Securities, Inc.	28,315	676,074	0.042
Kleinwort Benson Securities Ltd.	27,856	1,239,349	0.022
KBC Financial Products Ltd.	24,856	870,674	0.029
Instinet Clearing Services, Inc.	22,121	2,891,715	0.008
ING Bank NV	21,279	1,786,898	0.012
Daiwa Securities Co., Ltd.	20,978	351,794	0.060
Mizuho Securities Co., Ltd.	19,482	627,863	0.031
Cazenove and Co., Ltd.	17,510	1,795,967	0.010
Salomon Brothers, Inc.	16,695	1,158,860	0.014
Agora Corde Titul e Val Mob	15,907	47,393,020	0.001
G Trade Services Ltd.	14,517	2,860,553	0.005
Jefferies and Co., Inc.	11,814	568,024	0.021
Tokyo Mitsubishi International PLC	11,449	304,236	0.038
HSBC Securities, Inc.	10,959	660,134	0.017
Sanford C. Bernstein and Co., LLC	10,879	390,996	0.028
ABG Sundal Collier Norge Ltd.	6,668	804,043	0.008
Exane SA	5,583	325,832	0.017
Euroclear Bank SA	5,548	279,100	0.020
Enskilda Securities	4,664	158,483	0.029
Main First Bank AG	4,517	78,733	0.057
Cantor Fitzgerald and Co., Inc.	4,103	426,428	0.010
Yuanta Core Pacific Securities	3,829	794,000	0.005
Oppenheim, Sal., Jr Und Cie Koeln	3,379	49,198	0.069
Peel Hunt and Co., Ltd.	3,307	153,991	0.021
Dresdner Bank AG	3,294	48,534	0.068
Brokers less than $3,200 (88)	88,210	6,897,733	0.013
Total non-US	$2,217,839	828,814,714	$ 0.003

Investment Section

Investment Notes

Investment Summary

Portfolio Type	Fair Value	% of Total Fair Value
US Equity	$4,505,250,098	45.2%
Non-US Equity	1,939,558,351	19.5%
Private Equity	260,427,573	2.6%
Fixed Income	2,093,172,588	21.0%
Real Estate	1,115,771,597	11.2%
Short-Term	49,762,537	0.5%
Net Portfolio Value	$9,963,942,744	100.0%

Reconciliation to Statement of Plan Net Assets	
Net Portfolio Value	$9,963,942,744
Accrued Income	229,336
Accounts receivable, securities sold	(127,936,232)
Accounts payable, securities purchased	180,354,425
Cash and STIF	(18,183,226)
Investments per Statement of Plan Net Assets	$9,998,407,047

Investment Results

FOOTNOTES TO INVESTMENT RESULTS TABLE ON PAGE 43:

(1) The US equity composite includes cash equitization as of November 1998. Prior to October 1994, the US equity benchmark was the S&P 500 Index.

(2) From inception to 7/97 - 100% MSCI EAFE (50% hedged); 8/97 to 6/99 - 96.7% MSCI EAFE (50% hedged) and 3.3% MSCI EMF; 7/99 to 12/99 - 93.3% MSCI EAFE (50% hedged) and 6.7% MSCI EMF; 1/00 to current - 100% MSCI ACWF ex-US Index (developed markets 50% hedged).

(3) Private Equity returns are reported one quarter in arrears beginning with quarter ending June 30, 2002. To implement quarter in arrears reporting, the returns for private equity were recorded as zero for the quarter ending June 30, 2002.

(4) From inception to December 1999, Custom Private Equity Benchmark consists of S&P 500 Index plus 500 basis points annualized. From January 2000 through the current period, the Custom Private Equity Benchmark consists of S&P 500 Index plus 300 basis points annualized. The custom benchmark is reported one quarter in arrears from June 30, 2002 through the current period. Methodology change results in a 0% return for the quarter ended June 30, 2002.

(5) The Real Estate composite returns are reported one quarter in arrears beginning with the quarter ending June 30, 2002. To implement quarter in arrears reporting, the returns for private real estate assets were recorded as zero for the quarter ending June 30, 2002. Public Real Estate returns are reported in the current quarter.

(6) From inception to June 2002, benchmark consisted of 100% NCREIF Property Index (one quarter in arrears). Starting in July 2002, the benchmark consists of 80% NCREIF Property Index (one quarter in arrears) and 20% NAREIT Index.

(7) For fiscal year 2001, the Short-Term return was impacted by cash flows from different asset classes in addition to overnight investments.

(8) The composite includes net of fee Real Estate and Private Equity history prior to July 1, 1999. Real Estate and Private Equity classes are reported one quarter in arrears beginning with the quarter ending June 30, 2002. The Total Fund is impacted beginning June 30, 2002 with Real Estate and Private Equity March 31, 2002 market values and also with flows for the quarter ending June 30, 2002.

(9) As of 07/01/02 OSERS Policy Benchmark consists of: 46% Russell 3000 Index, 16% MSCI ACWF ex-US Index (developed markets 50% hedged), 23% Lehman Brothers Aggregate Bond Index, 10% SERS Real Estate Custom Benchmark, 3% S&P 500 Index + 300bps, 2% CitiGroup 30 Day T-Bill Index. For the quarter ended June 30, 2002, Private Equity Benchmark (one quarter in arrears) reflects a 0% return.

Statement of Investment Policy

Purpose

The purpose of this Statement of Investment Policy (Statement) is to define the Retirement Board's investment philosophy and objectives for the School Employees Retirement System (SERS). 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 Chapter 3309 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 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 philosophies, expectations and objectives of the Board.

Background

SERS was established to provide retirement and disability benefits for all non-certificate holding persons employed by Ohio's school districts. This purpose is funded by the member and employer contributions and returns realized from investment of those contributions.

A nine-member board governs the system 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 incorporates and is subject to all restrictions, guidelines and obligations set forth by the Ohio Revised Code.

The System invests over the long term. SERS' time horizon is assumed to be 30 years.

I. INVESTMENT OBJECTIVE, RISK MANAGEMENT AND IMPLEMENTATION APPROACH

A. Investment Objective

The Board realizes that its primary objective is to assure that SERS meets its responsibilities first to provide statutorily mandated retirement benefits and then to provide other permissive benefits as authorized by the Board. In defining investment objectives the Board seeks to enhance the investment returns of the fund in order to permit higher benefits while minimizing the costs to administer the fund and manage the investments. Thus, the fund should earn over the long-term a total fund return that equals or exceeds the actuarial discount rate approved by the Board when setting SERS' funding policy. The Board believes the investment policies summarized in this Statement will achieve this objective at an acceptable level of risk. The Board evaluates risk in terms of the probability of not earning the actuarial discount rate over a 30-year time horizon.

B. Risk Management

The Board believes that over the long term there is a positive correlation 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. The Board shall always act to assure that the level of investment risk in the portfolio shall be prudent and shall not jeopardize the primary objective to first provide statutorily mandated retirement benefits and then to provide other permissive benefits as authorized by the Board.

Diversification by asset class, by investment approach and by individual investments within each asset class will be employed to reduce overall portfolio risk and volatility.

C. 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 Executive Director, to the Investment Staff, to Investment Managers, to consultants or other entities providing investment services to SERS. These responsibilities are described in this Statement.

In fulfilling its fiduciary duties, the Board utilizes a competent and qualified Investment Staff. Investment Staff is assigned, among other duties, oversight of professional external Investment Managers. The Board authorizes the Investment Staff to direct funds in accordance with this Statement. Investment Managers are selected for their expertise to manage certain portions of SERS' portfolio.

The Board requires regular reporting on the fund's investments in order to assure proper compliance with the Board's policies.

II. INVESTMENT ORGANIZATION AND RESPONSIBILITIES

A. Responsibilities of the Board

The Board recognizes its responsibility to ensure that the assets of SERS are managed effectively and prudently, in full compliance with all applicable laws and Board policies, guidelines and objectives; 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 Board members to act as a Subcommittee from time to time, and may delegate certain decision making or fact finding responsibilities to that subcommittee.

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

1. Establish controls and systems to ensure that fiduciaries comply with all applicable laws.
2. Establish asset allocations, investment policies, guidelines and objectives for the assets of SERS and communicate them to the Investment Staff and Investment Managers.
3. Appoint and discharge those with responsibility for managing SERS' assets, including Investment Managers, Investment Consultants, Executive Director and any others involved.
4. Approve the list of qualified Investment Managers who shall be known as Approved Investment Managers.
5. Monitor and review the investment performance of SERS to determine achievement of objectives and compliance with this Statement and applicable laws.
6. Establish a proxy policy; and review proxy governance issues with Investment Staff at least annually.
7. Request, receive and review reports from the Investment Staff, Investment Consultant or when applicable from other investment entities.
8. Review and approve the Annual Investment Plan including the policy with the goal to increase utilization of Ohio-qualified investment managers and agents. In addition the Board must approve any intra-year changes to the Annual Investment Plan.

B. Responsibilities of the Staff

The Staff shall administer the assets of SERS in accordance with all: applicable federal and state law and regulations, including but not limited to, applicable ethics requirements; the policies, guidelines and objectives adopted by the Board; and applicable professional codes and/or regulations.

The Executive Director has the following responsibilities:

1. Ensure necessary reports on SERS' investment results are presented on a timely basis as required under this Statement, or as requested by the Board.
2. Retain any consultants or advisors deemed necessary or desirable for assistance in the investment of SERS' assets, and for meeting the Executive Director or Investment Staff's responsibilities. These consultants would be in addition to any consultants hired by the Board.
3. Recommend the appointment or discharge of Investment Managers.
4. Oversee the investment function.

The Director of Investments has the following responsibilities:

1. Prepare and recommend an Annual Investment Plan for the investment of SERS' assets with

recognition of the target asset mix ratios and the permissible ranges for asset allocation established by the Board.

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

3. Report to the Board any intra-year changes in the Annual Investment 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, Consultants or other entities providing investment services to SERS.

4. Research new investment strategies and recommend strategies with appropriate risk and return characteristics to the Executive Director and the Board.

5. Inform Investment Managers, Consultants or other entities providing investment services to SERS the requirements of applicable law and the policies, guidelines and objectives adopted by the Board including the proxy policy; and monitor their compliance.

6. Approve the Investment Staff's recommendation to increase or decrease the amount of assets managed by individual Investment Managers.

7. Recommend the appointment or discharge of Investment Managers to the Executive Director and the Board.

8. Supervise the Investment Staff.

9. Monitor and evaluate the effectiveness of securities transactions executed on behalf of the Board and report annually to the Board the performance of agents that execute securities transactions on behalf of the Board.

The Investment Staff has the following responsibilities:

1. Promptly vote or instruct SERS' Approved Investment Managers to vote all proxies and related actions in a manner consistent with this Statement; and maintain detailed records of all proxy voting and related actions for the Director of Investments.

2. Report, at least quarterly, the status of the portfolio and its performance for various time periods to the Director of Investments.

3. Consult with Approved Investment Managers periodically to discuss account progress and other material information.

4. Evaluate each Approved Investment Manager's ability to continue managing assets for SERS.

5. Recommend to the Director of Investments that assets be added to or withdrawn from existing Investment Managers.

6. Recommend the appointment or discharge of Investment Managers to the Director of Investments.

7. Invest assets in the short-term portfolio as authorized by the Board.

8. Research new investment strategies and recommend strategies with appropriate risk and return characteristics to the Director of Investments.

9. Prepare an annual report for the Director of Investments on the performance of agents that execute securities transactions on behalf of the Board.

C. Responsibilities of the Approved Investment Managers

Each Approved Investment Manager and any Investment Staff member internally managing assets, is responsible for the specified investment management accountability unit which it manages.

Each Approved Investment Manager and internal Staff member shall:

1. Manage the assets and the allocation of those assets within its control in compliance with all: applicable federal and state law and regulations including but not limited to, applicable ethics requirements; the policies, guidelines and objectives adopted by the Board; all contractual obligations; and applicable professional codes and/or regulations.

2. Inform the Executive Director, Director of Investments and Investment Staff 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 in the investment management organization.

3. Prepare reports for the Director of Investments and Investment Staff on a semi-annual basis, prior to any scheduled meetings, or as may be requested.

4. Recommend to the Director of Investments any changes in policy, guidelines or objectives which the Investment Manager believes to be desirable.

5. Select such agents for the execution of transactions, at such prices, and at such commission rates as in the good faith judgment of the Investment Manager will be in the best interest of the System's assets, taking into consideration in the selection of such agents not only the available prices and rates of brokerage commissions, but also other relevant factors to the transaction.

D. Responsibilities of the Investment Consultant to the Board

The Investment Consultant shall:

1. Provide independent and unbiased research, information and advice to the Board and SERS Staff.

2. Assist in the development and amendment of this Statement.

3. Assist in the development of strategic asset allocation targets.

4. Assist in the development of performance measurement standards.

5. Monitor and evaluate Investment Manager performance on an ongoing basis.

6. Collaborate with Investment Staff in the due diligence of potential new Investment Managers and existing Investment Managers, as requested.

7. Assist in the development of criteria and procedures to be utilized for the selection of Investment Managers.

8. Provide research, information and advice on investment topics and strategies considered relevant by the Investment Consultant, or when requested by Investment Staff.

9. Provide any other advice or services that the Board, Executive Director or Director of Investments determines from time to time are necessary, useful or appropriate to fulfill the objectives of this Statement.

10. Provide services in accordance with all applicable federal and state law and regulations including, but not limited to, applicable ethics requirements; and with all applicable professional codes and/or regulations.

III. INVESTMENT GUIDELINES

The following non-inclusive methods provide implementation guidelines for the Investment Staff. The Board may periodically approve other guidelines for Staff.

A. Asset Allocation Guidelines

It is the Board's responsibility to determine the allocation of assets among distinct capital markets. The procedure for determining the allocation will consider the relevant characteristics of the liabilities and potential assets of SERS. Typically the Board will conduct an asset and liability study every three to five years unless substantial changes occur which require that a new study be done sooner.

The liability considerations shall include, but not be limited to, current and expected future values of the benefits, contributions and total assets. These factors are important for identifying the investment horizon of SERS and its cash flow requirements.

Based on an asset and liability study conducted by SERS' Investment Consultant which analyzed the expected returns of various asset classes, projected liabilities of SERS and the risks associated with various asset mix strategies, the Board has established the following asset allocation for SERS:

Asset Class	Target	Range
Equity Securities		
U.S. Equities	46%	41% –51%
Non-U.S. Equities	16%	11% –21%
Private Equity	3%	1% – 5%
Total Equities	65%	62% –68%*
Fixed Income Securities		
Domestic Fixed Income	23%	20% –26%
Real Estate	10%	5% –15%
Cash Equivalents	2%	0% – 3%
Total	100%	

* Lower end of range can be 1% lower until private equity reaches target.

B. Derivatives Guidelines

A derivative is an instrument that derives its value from an underlying asset or security. Examples are futures contracts, forward contracts, and options. SERS uses derivative instruments for the purpose of meeting the Fund's investment objectives.

Derivatives are used for the following purposes:

- Rebalancing
- Managing portfolio characteristics within an asset class
- Hedging currency exposure
- Managing other risk exposure not covered above

Use of derivatives for speculative purposes is prohibited.

Derivative positions established by Investment Staff will be reported at each Board meeting.

The Board permits the use of derivatives such as futures, options, forwards, swaps and similar securities for use by Investment Staff and SERS' Investment Managers as long as the securities are not used for speculative purposes.

C. Rebalancing Guidelines

Asset allocation represents a long term strategy and is one of the most important investment decisions made by the Board. It is the responsibility of the Investment Staff to ensure that this major decision is efficiently and consistently implemented. Over time, market events will cause the actual allocation to vary from the target allocation. Rebalancing is the action of bringing the actual allocation back toward the target allocation and within its permissible range.

The Asset Allocation Guidelines provide permissible ranges for each asset class. When the actual allocation falls outside these ranges, Investment Staff will take actions to bring the actual allocations toward the target allocation. Investment Staff may take actions to bring the actual allocations toward the target allocation prior to the actual allocation falling outside their ranges. Cost and timeliness are two of the factors that may be considered in implementing a rebalancing program. On a temporary basis, up to three months, derivative instruments may be used as a low-cost and efficient method for rebalancing.

D. Currency Hedging Guidelines

Currency hedging is utilized in the non-US equity portfolio to reduce the affect of foreign currency valuation changes versus the US dollar on the investment returns of the non-US portfolio.

Currency hedging can be utilized either through passive management, active management or a combination of both.

E. Transition Management Guidelines

A Transition Manager may be used to facilitate the movement of assets or cash among managers. A Transition Manager has expertise in moving a large amount or number of assets quickly with the least amount of cost and market impact.

Transition Managers may be used when cash is being added to or withdrawn from an existing Investment Manager. The Transition Manager may also be used when an Investment Manager is first hired or when they are dismissed. Investment Staff will determine when it is appropriate to retain a Transition Manager.

The Board's current Investment Consultant cannot be used as a Transition Manager unless specifically approved by the Board.

F. Proxy Voting Guidelines

The Board believes that proxy voting rights have economic value and it is a fiduciary responsibility to assure that the voting of common stock proxies are in the best interest of the members and retirees. Annually the Board shall approve the "Proxy Policy Guidelines and Procedures." Investment Staff, Investment Managers, and third-party proxy voting agents will use the "Proxy Policy Guidelines and Procedures" as a guide in voting proxies.

Common stock proxies may be executed by SERS' Proxy Review Committee, third party proxy voting agents, or Investment Managers. The Director of Investments will inform the Board of significant proxy issues as they arise. Staff reviews proxy voting annually with the Board.

G. Securities Lending Guidelines

Lending securities to qualified borrowers enables SERS to realize incremental income on assets currently in the portfolio. This represents an opportunity to increase the return on the fund with very little additional risk. The Board has authorized Staff to hire one or more security lending agents as necessary to lend SERS' assets.

H. Passive Management Guidelines

To minimize costs and risk, the Board has approved the use of certain levels of passive management for portions of the U.S. and Non-U.S. equity portfolios. Passive management employs the use of low cost index funds to match the characteristics and performance of an asset class or subclass. Multiple passively managed funds may be used to maintain the diversification and characteristics desired in SERS' portfolio.

Enhanced index funds are a low cost, low risk strategy that can add some extra return over the benchmark. Enhanced index products can be used as a passive management strategy if approved by the Board.

I. Approved Investment Manager Guidelines

The Board approves Investment Managers to which assets may be assigned by the Investment Staff, but any Investment Manager with a similar style approved by the Board as a backup manager can be selected by the Investment Staff to manage assets for SERS.

Each Investment Manager will be required by contract to adhere to specific investment guidelines as well as all applicable laws. Investment guidelines will be identified in detail in each executed Investment Management Agreement.

It is a goal of the Board to increase the utilization of Ohio-qualified Investment Managers when an Ohio-qualified Investment Manager offers quality, services and safety comparable to other Investment Managers available to the Board, and the use of such Investment Manager is consistent with the Board's fiduciary duties. A list of Ohio-qualified Investment Managers will be maintained by requesting information from Investment Managers doing business or seeking to do business with SERS. Notices of searches for Investment Managers, including search criteria, will be posted on SERS' website.

J. Approved Agents Guidelines

Agents, or broker/dealers who may provide execution of securities transactions for SERS will be evaluated on the basis of financial soundness, underwriting capabilities, research services, execution costs, and any other capabilities necessary in the execution of such transactions.

For those accounts of SERS' assets which are managed externally, Investment Managers may use such agents as they select for execution of such transactions, at such prices, and at such commission rates as in the good faith judgment of the Investment Manager will be in the best interest of SERS' assets, taking into consideration in the selection of such agents not only the available prices and rates of brokerage commissions, but also other relevant factors to the transaction.

It is a goal of the Retirement Board to increase its utilization of Ohio-qualified agents for the execution of domestic equity and domestic fixed income trades when an Ohio-qualified agent offers quality, services, and safety comparable to other agents available to the Retirement Board or its Investment

Managers, and the use of such agent is consistent with the Retirement Board's fiduciary duties. A list of Ohio-qualified agents will be maintained by requesting information from agents doing business or seeking to do business with SERS.

K. Security Litigation Guidelines

As a large institutional holder of equity ownership in public companies, SERS may be deemed to be a member of a class of shareholders involved in litigation against companies, their directors, and officers. Such litigation against a company typically arises from alleged violations of federal and state securities laws relating to disclosure obligations or breaches of fiduciary or other duties. SERS follows an established litigation process to determine the course of action that best represents the interests of SERS' participants and beneficiaries.

IV. PERFORMANCE MONITORING AND CONTROL

Investment Staff monitors performance data provided by SERS' Finance Department on a monthly basis.

A. Performance Measurement Standard

Performance evaluation for the portfolio shall be the total return, on an accrual accounting basis, including realized and unrealized capital gains and losses, and income. Valuations are to be made at least on a quarterly basis and period returns are to be geometrically linked. Cash and cash equivalents shall be included in the portfolio's return. Performance shall be calculated on a gross-of-fee basis. The Board may also review performance on a net-of-fee basis.

B. Performance Benchmark for the Total Fund

The investment objective of the total fund, as stated in Section I.A. above, is to "earn over the long term (30 years) a total fund return that equals or exceeds the actuarial discount rate". Performance of the total fund relative to benchmarks will be examined more frequently, on a one quarter, one year, three year and five year basis, with emphasis on the three and five year periods.

The performance benchmark for the total fund shall be determined as a weighted average of the performance benchmarks for each asset class. The Board shall use the asset allocation target weights for the purpose of calculating the performance benchmark for the total fund.

C. Performance Benchmarks for Each Asset Class

A standardized measurement has been chosen upon which to judge the long-term performance of each asset class. For performance measurement purposes, long term refers to three and five year rolling periods. Performance of each class should meet or exceed the standard measure.

The current long-term performance measures for each asset class shall be as follows:

Asset Class	Measure
U.S. Equity	Russell 3000 Index
Non-U.S. Equity	Morgan Stanley Capital International – All Country World Free ex-U.S. Index – 50% hedged for developed countries
Private Equity*	Standard & Poor 500 Composite Index plus 3% per annum
Fixed Income	Lehman Brothers Aggregate Bond Index
Real Estate*	Custom Benchmark **
Cash Equivalents	30-day U.S. Treasury Bills return

* Returns for private real estate and private equity are reported one quarter in arrears.

** Beginning July 1, 2002, SERS' real estate benchmark is a blended benchmark of 20% NAREIT Equity Index and 80% NCREIF Property Index (one quarter in arrears). Prior to July 1, 2002, SERS' real estate benchmark was the NCREIF Property Index (one quarter in arrears).

D. Performance Benchmark for Each Investment Manager

Investment Managers have specific performance benchmarks against which their performance shall be measured. In addition to exceeding the performance benchmark, the Investment Manager's performance shall also be measured relative to its peer group. As with the performance for the total fund and for each asset class, the performance of each Investment Manager is measured over annual and rolling three-year and five-year periods.

V. REVIEW AND EVALUATION

The Board shall review and evaluate periodic reports on the investment results of SERS' assets. In these reviews, it is intended that greater emphasis shall be given to longer-term results (three to five years) than to shorter-term results. The following is the intended frequency for review and evaluation, although the Board, as deemed necessary, may alter the frequency:

1. Monthly – Investment Report which will include the total fund market value, asset allocation of the fund, the performance of the total fund and each asset class, and each Investment Manager's compliance with Board Policy and Guidelines. This report will be given by Investment Staff.

2. Quarterly – Summary Investment Reports including highlights and commentary of investment performance, asset composition for each asset class and each investment management accountability unit. These reports shall identify any results requiring the attention of the Board. This report will be given by the Board's Investment Consultant.

3. Quarterly and Annual – Investment Manager updates – At least quarterly Investment Staff will discuss the portfolio with each of SERS' Investment Managers. On a periodic schedule, usually once every 12 to 18 months, each Investment Manager will meet with Staff in Columbus; and then Staff will meet with each Investment Manager in its office six to nine months later to monitor each Investment Manager's organization, personnel and performance. Periodically, usually once a year, Investment Staff will prepare a written evaluation of each Investment Manager for the Board.

Actuarial Section

buckconsultants.
an ACS company

November 16, 2006

Board of Trustees
School Employees Retirement System of Ohio
300 East Broad Street
Columbus, OH 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 valuation (i) measures present financial position, and (ii) establishes contribution rates that provide for the current cost and level percent of payroll amortization of the unfunded actuarial accrued liability over a reasonable period. The valuation performed as of June 30, 2006 indicates that a contribution rate of 10.68% of payroll for 123,266 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 30 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. We review the data 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 2001-2005 fiscal years. 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.

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The financial condition of health care benefits is different and is being significantly affected by the provisions of Act 290 of 1988 and Act 270 of 2001. Act 290 established a health care surcharge, a program to determine a minimum annual pay for use in calculating employer contribution dollars. Act 270 placed limits on the amount of health care surcharge that can be assessed to each employer and in total.

On the basis of projections of health care fund activity and the surcharge limit established by Act 270, the allocated contributions are insufficient in the long-term to provide for a health care reserve equal to at least 150% of estimated annual net claim costs. Such reserve is based on the projected claims and premium contributions for next fiscal year, as is described in the Clarification to Statement of Funding Policy issued by the Board in January 2005. As of June 30, 2006, the value of the health care fund was equal to about 221% of next year's projected net health care costs. Since total claims are projected to exceed total contributions in future years, it is expected that future reserve amounts will be lower than the current level and eventually less than the 150% target.

The current benefit structure is outlined in the Plan Summary. There were no changes made since last year that impacted valuation results.

We provided information used in the schedules of Actuarial Accrued Liabilities, Active Member Valuation Data, Retirees and Beneficiaries Added to and Removed From Rolls, Analysis of Financial Experience, and the Short-Term Solvency Test for basic benefits that are found in the Actuarial Section, and the Schedule of Funding Progress in the Financial Section. For fiscal years prior to June 30, 2002, the information was provided by the previous actuary.

Based upon the results of the valuation of the basic benefits, the post-retirement death benefit 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.

Sincerely,

Kim M Nicholl

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Principal, Consulting Actuary

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Actuarial Cost Method and Assumptions

The following methods and 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 Buck Consultants' *Experience Investigation for the Five-Year Period Ending June 30, 2005* dated May 11, 2006 and were adopted for use in the valuation as of June 30, 2006. All historical information and data shown in this report with a valuation date prior to June 30, 2002 were obtained from the previous actuary's valuation report.

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, 2006, the policy required the determination of a rate for basic benefits which will amortize the unfunded actuarial accrued liabilities over a 30-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, 2006 is 10.58%.

Health Care Benefits

Initially, 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 since been increased at various times, and the total employer contribution rate has been increased to the statutory 14% maximum. Effective with the 1995 fiscal year, the Retirement Board replaced the level cost financing of health care with pay-as-you-go financing. The portion of the employer contribution rate allocated to health care for the year ended June 30, 2006 is 3.42%.

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 2006, the minimum pay has been established as $35,800. Senate Bill 270, effective April 2001, caps the employer surcharge at 2.0% of each employer's payroll and 1.5% statewide.

Actuarial Assumptions

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.

Actuarial value of assets as of June 30, 2006 is based on a four-year average of adjusted market value returns. The difference between the actual returns at market value for the year and expected returns is determined. Twenty-five percent (25%) of that difference is added to the expected value along with corresponding amounts from each of the prior three years.

The following significant assumptions were used in the actuarial valuation as of June 30, 2006.

(1) A rate of return on the investments of 8.0% compounded annually (net after all System expenses) is assumed. The real rate of return is the portion of total investment return which is more than the inflation rate. Considering inflation recognition of 3.5 percent, the 8.0 percent investment return rate translates to an assumed real rate of return of 4.5 percent.

(2) As a result of cost-of-living adjustments, benefits will increase 3% per year after retirement.

(3) Salary increases of 4.0%, attributable to wage inflation, are projected and compounded annually. Additional projected salary increases ranging from .5% to 20.75% per year are attributable to seniority and merit. Pay increase assumptions for individual active members are shown for service durations in the following table.

Years of Service	Merit & Seniority	Salary Inflation	Total
0	20.75%	4.00%	24.75%
1	13.25	4.00	17.25
2	10.75	4.00	14.75
3	8.75	4.00	12.75
4	7.75	4.00	11.75
5	5.75	4.00	9.75
6	4.75	4.00	8.75
7	3.75	4.00	7.75
8	2.75	4.00	6.75
9	1.75	4.00	5.75
10-14	0.75	4.00	4.75
15+	0.50	4.00	4.50

(4) Eligibility for 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. Representative values of the assumed annual rates of service retirement are as follows.

Age	Male	Female
50	40%	33%
55	25	25
60	10	20
65	25	25
70	20	20
75	100	100

(5) Rates of separation from active service are for reasons other than retirement, disability or death. Representative values of the assumed annual rates of withdrawal are as follows.

Years of Service	Rate of General Termination
0	55.00%
1	20.00
2	15.00
3	10.00
4	7.50
5	6.50
10	5.00
15	3.75
20	3.50

(6) Representative values of the assumed annual rates of disability are as follows.

Age	Male	Female
30	.1120%	.0075%
35	.3710	.0075
40	.4050	.1570
45	.5060	.1870
50	.8250	.3940
55	.8250	.6080

(7) Mortality rates for retirees and survivors are based on the 1994 Group Annuity Mortality Table with male ages set back three years and female ages set back one year. Mortality for active members is 70% of the retiree table for males and 55% for females. Mortality for disabled members is developed from experience.

Representative values of the assumed annual rates of retiree mortality are as follows.

Service Retired Members, Beneficiaries and Survivors
1994 Group Annuity Mortality Table (-3,-1)

Age	Male	Female
20	.0484%	.0280%
30	.0779	.0331
40	.0999	.0652
50	.2326	.1310
60	.7090	.3863
70	2.1729	1.2709
80	5.5861	3.5362

Disability Retired Members

Age	Male	Female
40	2.304%	2.090%
50	2.404	2.222
60	3.906	2.366
70	4.861	2.601
80	7.812	5.547

Marriage Assumption: 80% married with the husband three years older than his wife.

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, 2006

Present value of:	Basic Pension	Medicare Part B	Death Benefit	Total
Future benefits to present retirees and survivors	$ 5,792,626,507	$ 21,643,676	$191,961,855	$ 6,006,232,038
Monthly benefits and refunds to present inactive members	416,047,169	1,179,645	8,459,293	425,686,107
Allowances to present active members:				
Service	5,697,901,150	4,898,243	86,269,995	5,789,069,388
Disability	316,702,317	418,807	3,688,394	320,809,518
Survivor benefits	86,246,915	-	9,162,828	95,409,743
Refunds	(11,108,418)	315,573	239,207	(10,553,638)
Total AAL for active members	6,089,741,964	5,632,623	99,360,424	6,194,735,011
Total AAL	$12,298,415,640	$ 28,455,944	$299,781,572	$12,626,653,156

Active Member Valuation Data

Actuarial Valuation as of June 30	Number of Active Members	Annual Payroll (millions)	Average Annual Salary	% Increase in Average Salary
2001	115,684	$ 1,974.1	$ 17,064	4.0
2002	120,254	2,175.7	18,093	6.0
2003	122,315	2,302.3	18,823	4.0
2004	123,139	2,394.1	19,442	3.3
2005	122,855	2,452.5	19,963	2.7
2006	123,266	2,553.3	20,714	3.8

Retirees and Beneficiaries Added To and Removed From Rolls

	Added to Rolls		Removed from Rolls		Rolls at end of year		Percent increase	Average
Year	No.	Annual Allowances	No.	Annual Allowances	No.	Annual Allowances	in Annual Allowances	Annual Allowances
2001	4,051	$ 30,406,522	3,080	$ 2,555,087	58,795	$ 404,506,861	7.4	$ 6,880
2002	3,977	31,076,560	3,423	3,366,365	59,349	432,217,056	6.9	7,283
2003	3,414	31,177,197	2,764	2,182,240	59,999	461,212,013	6.7	7,687
2004	3,013	32,500,992	2,443	2,094,156	60,569	491,618,849	6.6	8,117
2005	3,683	38,670,969	2,819	2,357,850	61,433	527,931,968	7.4	8,594
2006	3,750	40,115,408	2,662	1,276,484	62,521	566,770,892	7.4	9,065

Analysis of Financial Experience

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

Type of Risk Area	Gain/(Loss) For Year In Millions					
	2006	2005	2004	2003	2002	2000
Age & Service Retirements If members retire at older ages than assumed, there is a gain. If younger ages, a loss.	$ 37.9	$ (82.6)	$ (45.2)	$ (29.7)	$ 41.5	$ 27.4
Disability Retirements If disability claims are less than assumed, there is a gain. If more claims, a loss.	1.2	2.1	0.0	(0.3)	0.2	0.5
Death-In-Service Benefits If claims costs are less than assumed, there is a gain. If more claims, a loss.	0.2	(0.7)	0.5	(0.3)	1.6	(0.4)
Pay Increases If there are smaller pay increases than assumed, there is a gain. If greater increases, a loss.	76.4	101.6	83.6	28.0	(151.3)	(22.8)
Investment Return If there is greater investment return than assumed, there is a gain. If less return, a loss.	44.7	(397.4)	(763.8)	(781.4)	(533.6)	465.6
Withdrawal If more liabilities are released by other separations from active membership than assumed, there is a gain. If smaller releases, a loss.	(52.9)	52.7	56.6	38.8	(9.8)	(5.7)
New Members Additional unfunded accrued liability will produce a loss.	(36.7)	(42.7)	(48.6)	(37.1)	(38.6)	*
Death After Retirement If retirees live longer than assumed, there is a loss. If not as long, a gain.	15.8	12.4	23.3	30.0	44.1	14.4
Other Miscellaneous gains and losses resulting from data adjustments, timing of financial transactions, etc.	(145.4)	(81.7)	(0.4)	(24.7)	35.5	(136.2)
Non-Recurring Items Adjustments for plan amendments, assumption changes, or method changes.	156.5	0.0	0.0	31.7	0.0	0.0
Total Gain/(Loss) During Year	$ 97.7	$(436.3)	$(694.0)	$(745.0)	$(610.4)	$342.8

* Included in "Other" risk area prior to 2002.
2001 data not available.

Actuarial Section

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)
2001	$1,407	$4,294	$3,555	$8,791	100%	100%	87%
2002	1,525	4,599	3,862	8,879	100	100	71
2003	1,643	4,881	4,110	8,772	100	100	55
2004	1,785	5,173	4,293	8,667	100	100	40
2005	1,943	5,551	4,467	8,893	100	100	31
2006	2,064	6,006	4,557	9,542	100	100	32

Statistical Section

Statistical Section

The provisions of GASB Statement No. 44, *Economic Condition Reporting: The Statistical Section,* issued in May 2004, establish and modify requirements related to the supplementary information presented in this section of the report. Implementation is required for fiscal years beginning after June 15, 2005.

The expanded Statistical Section presents information about SERS over the past ten years, and is intended to assist in understanding the trends in the financial condition and position of SERS over a longer period of time than was shown in this section in the past.

The schedules and graphs beginning on page 71 provide information about the trends of key sources of additions and deductions to plan assets:

- Net Assets by Fund
- Changes in Net Assets, and
- Benefits and Refunds Deductions from Net Assets by Type

Employer and Employee Contribution Rates on page 78 show rates charged over the past 10 years, and how the employer contribution was allocated to the individual funds. Demographics of Retired and Active Members schedules found on pages 78 and 79 show detailed information, such as type of retirement, average age and monthly pension amount, as well as the age group breakdown of current and retired members. The map on page 79 reflects where beneficiaries resided as of June 2006.

Page 80 shows Retired Members by type and amount of monthly benefit. A listing of Principal Participating Employers is also shown on page 80, which highlights our current top ten employers compared with those of seven years ago. The remaining employers are classified by type of school district.

The Average Benefit Payments schedule, found on page 81, shows the change in payments to new retirees over the past ten years, including average monthly benefit received, average final salary and the number of new retirees for each range of years of service attained at time of retirement.

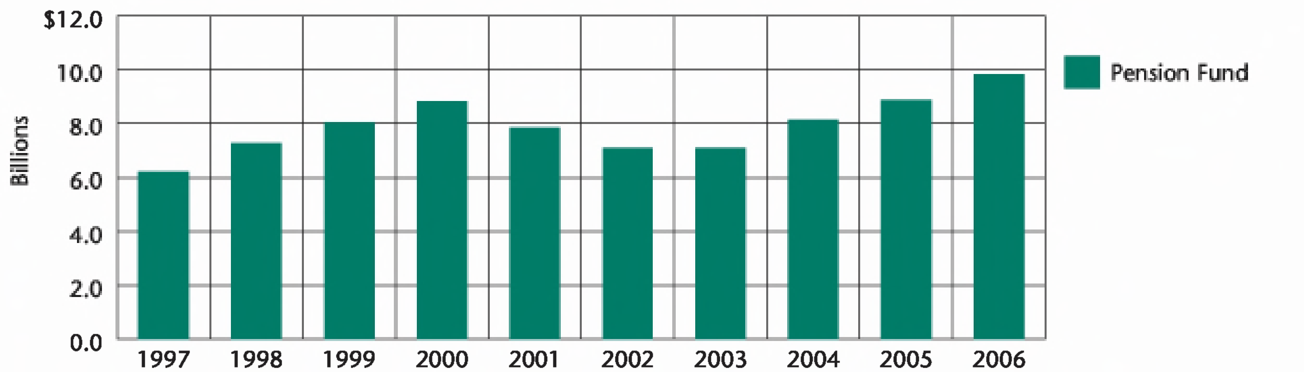
Net Assets by Fund

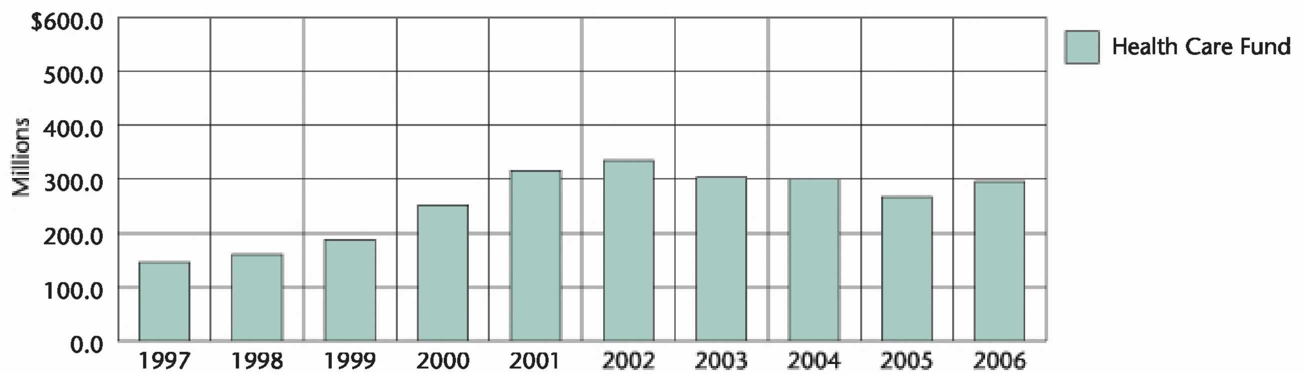
Last ten years

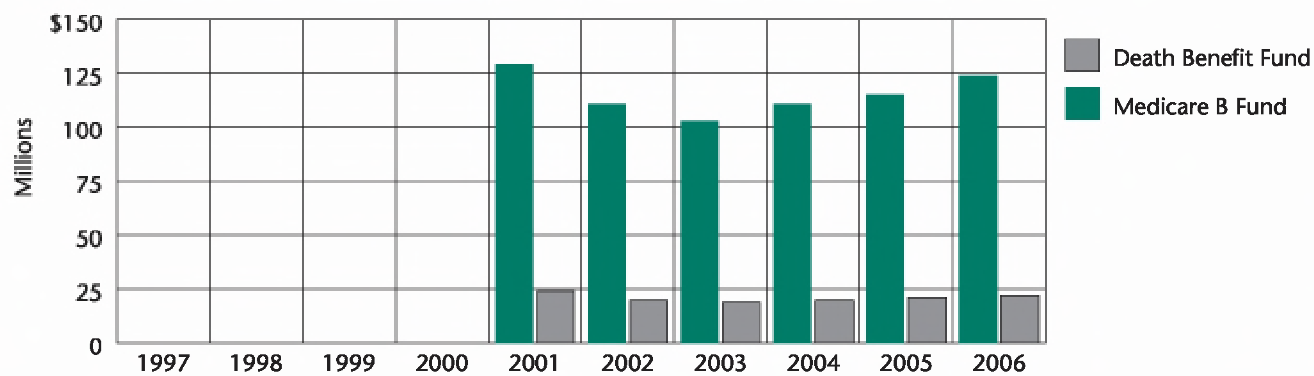
	Pension Fund	Medicare B Fund	Death Benefit Fund	QEBA Fund	Health Care Fund	Total Net Assets
1997	$6,221,019,167*	$ –	$ –	$ –	$146,383,823	$6,367,402,990
1998	7,297,257,724*				160,308,371	7,457,566,095
1999	8,040,823,067*				187,969,874	8,228,792,941
2000	8,841,805,985*				252,308,305	9,094,114,290
2001	7,861,021,652	128,691,592	23,610,466		315,713,869	8,329,037,579
2002	7,091,939,175	111,154,470	20,340,023		335,233,043	7,558,666,711
2003	7,096,479,273	103,481,031	18,897,237		303,556,610	7,522,414,151
2004	8,133,054,479	111,221,576	20,306,868	11,052**	300,860,704	8,565,454,679
2005	8,866,129,871	114,696,809	20,758,872	36,868	267,482,155	9,269,104,575
2006	9,833,948,677	124,178,222	22,076,462	7,429	295,561,933	10,275,772,723

*Includes Pension, Medicare B, and Death Benefit Funds
** Qualified Excess Benefit Arrangement established January 2003, funding commenced November 2003.

Net Assets by Fund







Statistical Section

Changes in Net Assets

(Last ten years)

Pension Fund*	**1997**	**1998**	**1999**	**2000**
ADDITIONS				
Employer Contributions	$ 161,950,878	$ 152,608,486	$ 143,217,951	$ 116,055,089
Employee Contributions	146,156,369	155,059,879	166,864,847	179,646,558
Transfers from other Ohio Systems	1,611,439	1,761,004	2,866,920	2,938,011
Other Income	415,110	357,227	303,714	256,219
Total Investment Income, Net	971,095,602	1,136,564,549	851,060,298	931,723,006
TOTAL ADDITIONS	$1,281,229,398	$1,446,351,145	$1,164,313,730	$1,230,618,883
DEDUCTIONS				
Pension Benefits	$ 312,908,800	$ 335,805,092	$ 380,874,308	$ 387,764,962
Refunds and Lump Sum Payments	19,618,499	18,467,794	22,177,533	22,332,580
Transfers to other Ohio Systems	2,863,606	3,915,463	3,444,287	4,123,815
Administrative Expenses	10,692,599	11,924,239	14,252,259	15,414,608
TOTAL DEDUCTIONS	$ 346,083,504	$ 370,112,588	$ 420,748,387	$ 429,635,965
Net increase (decrease)	$ 935,145,894	$1,076,238,557	$ 743,565,343	800,982,918
Net assets held in trust for Pension:				
Balance, Beginning of Year	5,285,873,273	6,221,019,167	7,297,257,724	8,040,823,067
Balance, End of Year	$6,221,019,167	$7,297,257,724	$8,040,823,067	$8,841,805,985

Postemployment Health Care	**1997**	**1998**	**1999**	**2000**
ADDITIONS				
Employer Contributions	$ 97,292,477	$ 113,799,774	$ 140,009,450	$ 187,074,371
Other Income	13,981,634	14,316,383	12,706,475	9,652,065
Total Investment Income, Net	10,835,540	12,152,850	14,272,044	18,262,540
TOTAL ADDITIONS	$ 122,109,651	$ 140,269,007	$ 166,987,969	$ 214,988,976
DEDUCTIONS				
Health Care Expenses	$ 111,410,831	$ 126,216,958	$ 139,087,459	$ 150,348,405
Administrative Expenses	119,308	127,501	239,007	302,140
TOTAL DEDUCTIONS	$ 111,530,139	$ 126,344,459	$ 139,326,466	$ 150,650,545
Net increase (decrease)	$ 10,579,512	$ 13,924,548	$ 27,661,503	$ 64,338,431
Net assets held in trust for Pension:				
Balance, Beginning of Year	135,804,311	146,383,823	160,308,371	187,969,874
Balance, End of Year	$ 146,383,823	$ 160,308,371	$ 187,969,874	$ 252,308,305

* In fiscal years 1997 through 2000, the Medicare B and Death Benefit Funds were included in the Pension Fund.

2001	2002	2003	2004	2005	2006
$ 90,091,402	$ 102,321,473	$ 182,919,583	$ 213,736,648	$ 255,633,456	$ 234,875,166
192,563,026	210,098,081	225,014,540	258,131,243	262,265,550	272,615,865
2,660,220	4,780,142	3,968,047	4,007,479	5,835,875	4,127,669
0	0	0	0	0	610,054
(605,415,851)	(619,870,709)	91,598,224	1,098,850,856	793,539,701	1,080,786,996
$ (320,101,203)	$ (302,671,013)	$ 503,500,394	$1,574,726,226	$1,317,274,582	$1,593,015,750
$ 397,234,511	$ 425,754,214	$ 456,834,182	$ 492,405,489	$ 533,714,925	$ 569,027,766
21,817,451	19,212,728	19,575,616	22,090,604	27,112,818	31,037,063
4,198,302	4,414,555	4,885,777	6,251,974	5,991,510	7,715,377
14,975,992	17,029,967	17,664,721	17,402,953	17,379,937	17,416,738
$ 438,226,256	$ 466,411,464	$ 498,960,296	$ 538,151,020	$ 584,199,190	$ 625,196,944
$ (758,327,459)	$ (769,082,477)	$ 4,540,098	$1,036,575,206	$ 733,075,392	$ 967,818,806
8,619,349,111	7,861,021,652	7,091,939,175	7,096,479,273	8,133,054,479	8,866,129,871
$7,861,021,652	$7,091,939,175	$7,096,479,273	$8,133,054,479	$8,866,129,871	$9,833,948,677

2001	2002	2003	2004	2005	2006
$ 236,898,701	$ 218,967,729	$ 171,313,952	$ 159,550,942	$ 126,355,575	$ 157,404,134
10,693,490	13,496,715	15,579,621	27,947,708	40,595,447	70,152,335
(11,328,226)	(15,550,768)	3,189,950	34,640,957	19,976,256	30,524,217
$ 236,263,965	$ 216,913,676	$ 190,083,523	$ 222,139,607	$ 186,927,278	$ 258,080,686
$ 172,133,424	$ 196,443,492	$ 220,510,358	$ 223,443,805	$ 218,816,560	$ 228,570,748
724,977	951,010	1,249,598	1,391,708	1,489,267	1,430,160
$ 172,858,401	$ 197,394,502	$ 221,759,956	$ 224,835,513	$ 220,305,827	$ 230,000,908
$ 63,405,564	$ 19,519,174	$ (31,676,433)	$ (2,695,906)	$ (33,378,549)	$ 28,079,778
252,308,305	315,713,869	335,233,043	303,556,610	300,860,704	267,482,155
$ 315,713,869	$ 335,233,043	$ 303,556,610	$ 300,860,704	$ 267,482,155	$ 295,561,933

Changes in Net Assets
(continued)
(Last ten years)

Medicare B Fund*	**1997**	**1998**	**1999**	**2000**
ADDITIONS				
Employer Contributions				
Other Income				
Total Investment Income, Net				
TOTAL ADDITIONS				
DEDUCTIONS				
Pension Benefits				
Administrative Expenses				
TOTAL DEDUCTIONS				
Net increase (decrease)				
Net assets held in trust for Pension:				
Balance, Beginning of Year				
Balance, End of Year				

Death Benefit Fund*	**1997**	**1998**	**1999**	**2000**
ADDITIONS				
Employer Contributions				
Other Income				
Total Investment Income, Net				
TOTAL ADDITIONS				
DEDUCTIONS				
Pension Benefits				
Administrative Expenses				
TOTAL DEDUCTIONS				
Net increase (decrease)				
Net assets held in trust for Pension:				
Balance, Beginning of Year				
Balance, End of Year				

QEBA Fund**	**1997**	**1998**	**1999**	**2000**
ADDITIONS				
Employer Contributions				
Other Income				
TOTAL ADDITIONS				
DEDUCTIONS				
Pension Benefits				
Administrative Expenses				
TOTAL DEDUCTIONS				
Net increase (decrease)				
Net assets held in trust for Pension:				
Balance, Beginning of Year				
Balance, End of Year				

* In fiscal years 1997 through 2000, the Medicare B and Death Benefit Funds were included in the Pension Fund.
** Fiscal year 2004 was the first year SERS had a QEBA recipient.

2001	2002	2003	2004	2005	2006
$ 3,667,340	$ 16,178,916	$ 15,609,515	$ 17,390,201	$ 17,735,032	$ 20,535,685
					62,510
(13,761,654)	(9,764,147)	872,761	14,996,522	10,290,424	13,538,975
$ (10,094,314)	$ 6,414,769	$ 16,482,276	$ 32,386,723	$ 28,025,456	$ 34,137,170
$ 56,480,052	$ 23,596,306	$ 23,826,601	$ 24,307,188	$ 24,547,223	$ 24,652,637
266,749	355,585	329,114	338,990	3,000	3,120
$ 56,746,801	$ 23,951,891	$ 24,155,715	$ 24,646,178	$ 24,550,223	$ 24,655,757
$ (66,841,115)	$ (17,537,122)	$ (7,673,439)	$ 7,740,545	$ 3,475,233	$ 9,481,413
195,532,707	128,691,592	111,154,470	103,481,031	111,221,576	114,696,809
$128,691,592	$111,154,470	$103,481,031	$111,221,576	$114,696,809	$124,178,222

2001	2002	2003	2004	2005	2006
$ 649,974	$ 456,274	$ 471,868	$ 744,272	$ 759,058	$ 1,054,246
					6,889
(1,913,983)	(1,771,920)	158,596	2,912,708	1,964,827	2,571,377
$ (1,264,009)	$ (1,315,646)	$ 630,464	$ 3,656,980	$ 2,723,885	$ 3,632,512
$ 2,013,003	$ 1,905,283	$ 2,027,422	$ 2,200,147	$ 2,217,881	$ 2,259,722
36,689	49,514	45,828	47,202	54,000	55,200
$ 2,049,692	$ 1,954,797	$ 2,073,250	$ 2,247,349	$ 2,271,881	$ 2,314,922
$ (3,313,701)	$ (3,270,443)	$ (1,442,786)	$ 1,409,631	$ 452,004	$ 1,317,590
26,924,167	23,610,466	20,340,023	18,897,237	20,306,868	20,758,872
$ 23,610,466	$ 20,340,023	$ 18,897,237	$ 20,306,868	$ 20,758,872	$ 22,076,462

2001	2002	2003	2004	2005	2006
			$ 18,600	$ 36,026	$ 41,850
			0	2	9
			$ 18,600	$ 36,028	$ 41,859
			$ 6,259	$ 9,572	$ 71,298
			1,289	640	0
			$ 7,548	$ 10,212	$ 71,298
			$ 11,052	$ 25,816	$ (29,439)
			0	11,052	36,868
			$ 11,052	$ 36,868	$ 7,429

Statistical Section

Benefit and Refund Deductions from Net Assets by Type

(Last Ten Fiscal Years)

Pension Benefits	1997	1998	1999	2000
Service Retirement	$260,069,372	$278,195,664	$317,125,829	$321,397,961
Disability Retirement	37,135,003	40,874,401	44,116,363	46,244,407
Survivor Benefits	14,918,620	15,735,855	18,127,793	18,315,432
TOTAL PENSION BENEFITS	$312,122,995	$334,805,920	$379,369,985	$385,957,800
Refunds				
Separation				
Beneficiaries				
TOTAL REFUNDS	$ 19,618,499	$ 18,467,794	$ 22,177,533	$ 22,332,580
TRANSFERS TO OTHER OHIO SYSTEMS	$ 2,863,606	$ 3,915,463	$ 3,444,287	$ 4,123,815

Medicare B Reimbursement	1997	1998	1999	2000
Service Retirement				
Disability Retirement				
Survivor Benefits				
TOTAL MEDICARE B REIMBURSEMENT				

Death Benefits*	1997	1998	1999	2000
Service	$ 683,545	$ 917,214	$ 1,377,213	$ 1,640,679
Disability	102,260	81,958	127,110	166,483
TOTAL DEATH BENEFITS	$ 785,805	$ 999,172	$ 1,504,323	$ 1,807,162

Health Care Expenses	1997	1998	1999	2000
Medical	$ 68,850,668	$ 76,652,066	$ 81,961,127	$ 85,170,510
Prescription	42,181,801	49,200,564	56,770,351	64,810,387
Other	378,362	364,328	355,981	367,508
TOTAL HEALTH CARE EXPENSES	$111,410,831	$126,216,958	$139,087,459	$150,348,405

Note: In fiscal years 1997 through 2000, Medicare B Reimbursements were included in the Pension Fund in the Changes in Plan Net Assets

2001	2002	2003	2004	2005	2006
$330,712,415	$355,422,159	$382,324,194	$413,743,800	$450,815,396	$481,929,589
48,349,429	51,081,315	53,859,560	56,956,255	59,656,369	62,669,473
18,172,667	19,250,740	20,650,428	21,705,434	23,243,160	24,428,704
$397,234,511	$425,754,214	$456,834,182	$492,405,489	$533,714,925	$569,027,766
$ 18,850,323	$ 18,483,724	$ 19,269,813	$ 21,496,787	$ 26,667,001	$ 29,065,065
2,967,128	729,004	305,803	593,817	445,817	1,971,998
$ 21,817,451	$ 19,212,728	$ 19,575,616	$ 22,090,604	$ 27,112,818	$ 31,037,063
$ 4,198,302	$ 4,414,555	$ 4,885,777	$ 6,251,974	$ 5,991,510	$ 7,715,377

2001	2002	2003	2004	2005	2006
$ 50,969,689	$ 21,135,767	$ 21,342,363	$ 21,742,514	$ 21,896,392	$ 22,007,666
2,554,641	1,155,196	1,163,920	1,216,754	1,245,341	1,278,217
2,955,722	1,305,343	1,320,318	1,347,920	1,405,490	1,366,754
$ 56,480,052	$ 23,596,306	$ 23,826,601	$ 24,307,188	$ 24,547,223	$ 24,652,637

2001	2002	2003	2004	2005	2006
$ 1,794,722	$ 1,693,283	$ 1,813,287	$ 1,992,963	$ 2,018,318	$ 2,062,198
218,281	212,000	214,135	207,184	199,563	197,524
$ 2,013,003	$ 1,905,283	$ 2,027,422	$ 2,200,147	$ 2,217,881	$ 2,259,722

2001	2002	2003	2004	2005	2006
$ 94,577,874	$107,055,941	$119,676,586	$125,213,303	$113,102,587	$131,562,641
76,695,342	87,642,652	99,511,288	97,155,916	105,195,298	95,589,547
860,208	1,744,899	1,322,484	1,074,586	518,675	1,418,560
$172,133,424	$196,443,492	$220,510,358	$223,443,805	$218,816,560	$228,570,748

Employer and Employee Contribution Rates

Last Ten Fiscal Years

Fiscal Year	Employee Rate	Employer Rate				
		Pension	Medicare B	Death Benefit	Health Care	Total
1997	9%	9.79%			4.21%	14%
1998	9%	9.02%			4.98%	14%
1999	9%	7.70%			6.30%	14%
2000	9%	5.55%			8.45%	14%
2001	9%	3.47%	0.71%	0.02%	9.80%	14%
2002	9%	4.73%	0.71%	0.02%	8.54%	14%
2003	9%	7.46%	0.69%	0.02%	5.83%	14%
2004	10%	8.36%	0.70%	0.03%	4.91%	14%
2005	10%	9.84%	0.70%	0.03%	3.43%	14%
2006	10%	9.76%	0.78%	0.04%	3.42%	14%

Note: The employee contribution rate was increased for all employees on July 1, 2003.
Prior to fiscal year 2001, the Medicare B and Death Benefit rates were included in the Pension rate.

Demographics of Retired and Active Members

Last Ten Fiscal Years

Service Retirement

Year Ending June 30	Service Credit	Monthly Amount	Age	Salary
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
2002	22.414	892.11	62.28	22,065
2003	22.189	915.76	62.20	22,965
2004	22.452	957.36	62.44	24,132
2005	22.568	1,041.85	62.57	26,040
2006	22.302	1,041.03	62.96	26,007

Disability Retirement

Year Ending June 30	Service Credit	Monthly Amount	Age	Salary
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
2002	21.210	1,047.52	52.24	22,637
2003	21.439	1,126.90	52.72	24,557
2004	20.780	1,090.08	52.45	24,096
2005	20.417	1,177.93	53.27	25,960
2006	16.000	1,252.00	53.00	27,093

Demographics of Retired and Active Members

Fiscal Year 2006

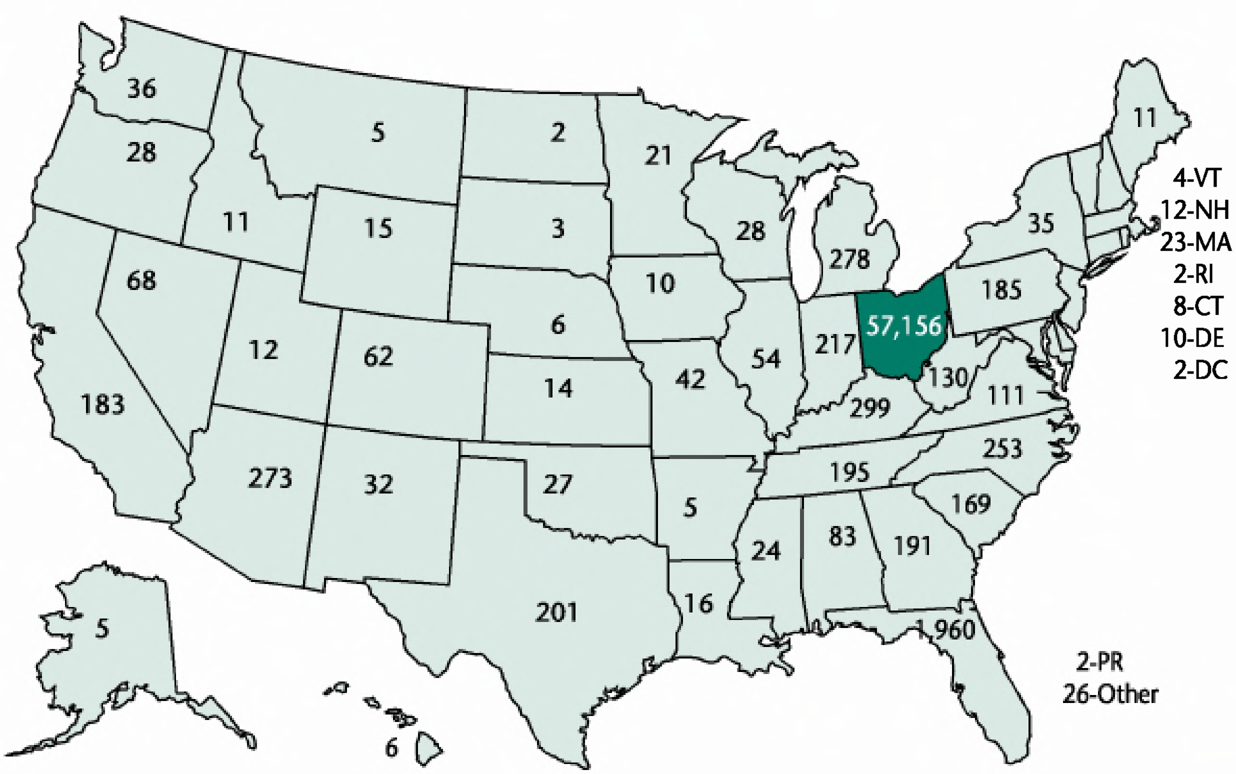
Active Members

	Active Members			Percentage of Distribution		
Ages	Male	Female	Total	Male	Female	Total
Under 20	412	350	762	0.3%	0.3%	0.6%
20 to 29	4,684	5,807	10,491	3.8%	4.7%	8.5%
30 to 39	5,481	13,197	18,678	4.4%	10.7%	15.1%
40 to 49	9,872	32,201	42,073	8.0%	26.1%	34.1%
50 to 54	5,170	15,326	20,496	4.2%	12.5%	16.7%
55 to 59	4,292	12,241	16,533	3.5%	9.9%	13.4%
60 to 64	2,675	5,901	8,576	2.2%	4.8%	7.0%
65 to 69	1,293	2,451	3,744	1.0%	2.0%	3.0%
70 and over	691	1,222	1,913	0.6%	1.0%	1.6%
	34,570	88,696	123,266	28.0%	72.0%	100.0%

Retired Members

	Retirees & Beneficiaries			Percentage of Distribution		
Ages	Male	Female	Total	Male	Female	Total
Under 55	942	1,205	2,147	1.5%	1.9%	3.4%
55 to 59	978	1,720	2,698	1.6%	2.8%	4.4%
60 to 64	1,587	5,187	6,774	2.5%	8.3%	10.8%
65 to 69	2,714	8,209	10,923	4.4%	13.1%	17.5%
70 to 74	2,886	8,493	11,379	4.6%	13.6%	18.2%
75 to 79	2,899	8,199	11,098	4.6%	13.1%	17.7%
80 to 84	2,186	7,087	9,273	3.5%	11.4%	14.9%
85 to 89	1,209	4,403	5,612	1.9%	7.0%	8.9%
90 to 94	377	1,763	2,140	0.6%	2.8%	3.4%
95 to 100	59	400	459	0.1%	0.7%	0.8%
101 and over	5	13	18	0.0%	0.0%	0.0%
	15,842	46,679	62,521	25.3%	74.7%	100.0%

Benefit Recipients by State



Retired Members by Type of Benefit

Fiscal Year 2006

Amount of Monthly Benefit	Total	Service	Disability	Survivor
$ 1 - 250	21,468	18,570	899	1,999
251 - 500	14,216	11,938	1,104	1,174
501 - 750	9,420	7,870	980	570
751 - 1,000	5,987	5,012	757	218
1,001 - 1,500	6,383	5,334	890	159
1,501 - 2,000	2,713	2,277	382	54
over 2,000	2,334	2,040	248	46
	62,521	53,041	5,260	4,220

Principal Participating Employers

Current Year and Six Years Ago

	Fiscal Year 2006			Fiscal Year 2000*		
Participating Schools Name	Covered Employee Members	Rank	Percentage of Total System	Covered Employee Members	Rank	Percentage of Total System
Columbus City Schools	4,332	1	3.52%	4,327	2	3.81%
Cleveland Municipal School District	3,524	2	2.86%	4,895	1	4.30%
Cincinnati City Schools	3,491	3	2.83%	3,476	3	3.05%
University Of Akron	2,753	4	2.23%	1,527	7	1.34%
Toledo City Schools	2,052	5	1.66%	2,394	4	2.10%
Akron City Schools	2,051	6	1.66%	2,139	6	1.88%
Dayton City Schools	1,908	7	1.55%	2,278	5	2.00%
Southwestern City Schools	1,639	8	1.33%	1,323	8	1.16%
Lakota Local Schools	1,272	9	1.03%			
Parma City Schools	1,189	10	0.97%	1,123	10	0.99%
Canton City Schools				1,265	9	1.11%
All other	99,055		80.36%	89,064		78.26%
Total	123,266		100.00%	113,811		100.00%

In fiscal year 2006 "all other" consisted of:

	Covered Employee Members	Number of School Districts
Local	39,946	373
City	37,322	184
Educational Service Centers	6,906	60
Village	5,554	49
Higher Education	2,313	14
Vocational/Technical	2,924	49
Community Schools	3,922	238
Other	168	6

*Information prior to FY 2000 is not available.

Average Benefit Payments

Last Ten Years

	Years of Credited Service					
Retirement Effective Dates	**5-9**	**10-14**	**15-19**	**20-24**	**25-29**	**30 +**
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
Period 7/1/01 to 6/30/02						
Average Monthly Benefit	$ 156	$ 333	$ 560	$ 752	$ 958	$ 1,653
Average Final Average Salary	1,057	1,368	1,690	1,747	1,895	2,426
Number of Retirees	162	313	355	351	666	548
Period 7/1/02 to 6/30/03						
Average Monthly Benefit	$ 148	$ 317	$ 552	$ 755	$ 983	$ 1,780
Average Final Average Salary	1,015	1,373	1,686	1,811	1,988	2,663
Number of Retirees	204	285	328	346	618	533
Period 7/1/03 to 6/30/04						
Average Monthly Benefit	$ 168	$ 370	$ 572	$ 809	$ 1,011	$ 1,731
Average Final Average Salary	1,192	1,611	1,777	1,941	2,037	2,612
Number of Retirees	207	284	336	318	606	613
Period 7/1/04 to 6/30/05						
Average Monthly Benefit	$ 179	$ 363	$ 600	$ 847	$ 1,081	$ 1,949
Average Final Average Salary	1,254	1,585	1,860	2,058	2,201	3,033
Number of Retirees	253	281	352	382	700	674
Period 7/1/05 to 6/30/06						
Average Monthly Benefit	$ 188	$ 368	$ 629	$ 849	$ 1,138	$ 1,947
Average Final Average Salary	1,328	1,569	1,895	2,070	2,267	2,905
Number of Retirees	288	318	328	403	403	675

Plan Summary

Purpose

The School Employees Retirement System of Ohio was established in 1937 by the state legislature to provide retirement and disability benefits for all non-certificated persons employed by the state's 958 school districts and community schools. This purpose is sustained by the member and employer contributions and the income realized from investment of those contributions.

Administration

The administration of SERS is supervised by a nine member Board which works in conjunction with the System's Executive Director. Four of the nine Board members are elected by the general membership (those who contribute to SERS) and two are elected by retirees. Three members are appointed by the legislature, state treasurer and governor.

The Executive Director is appointed by the Board. This person oversees the administrative operation of the System, and is aided by six directors. Their areas of responsibility are finance, legal and legislation, investments, member services, health care, 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 10.0% 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, State Teachers Retirement System (STRS), Ohio Public Employees Retirement System (OPERS), Ohio Police & Fire Pension Fund (OP&F), or State Highway Patrol Retirement System (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 STRS or OPERS 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 is 65 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 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 currently receive medical insurance from SERS. SERS reserves the right to change or discontinue any health plan or program. 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, AultCare, 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 qualified service credit to qualify for the health care benefits.

All benefit recipients enrolled in one of the health plans pay a monthly premium. The premium ranges from 15% to 100% of the cost, depending upon qualified years of service credit.

Cost of Living Increases

After 12 months on the benefit rolls, and each year thereafter, SERS retirees are entitled to an automatic cost of living increase of 3%. 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. A refund of contributions only is available for those who stop working under age 65.