SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 1999

SCHOOL EMPLOYEES RETIREMENT SYSTEM

Financial Report

SERVING THE PEOPLE WHO SERVE OUR SCHOOLS

SCHOOL EMPLOYEES RETIREMENT SYSTEM

Financial Report

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 1999

Prepared by SERS Staff

Thomas R. Anderson, Executive Director

SERVING THE PEOPLE WHO SERVE OUR SCHOOLS

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

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The Retirement Board

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

President:	**Jeannie Knox**, Cincinnati, Ohio *Term Expires June 30, 1999*
Vice President:	**Barbara Miller,** Malvern, Ohio *Term Expires June 30, 2000*
Employee-Member:	**Judy Kelley,** Akron, Ohio *Term Expires June 30, 2001*
Employee-Member:	**Barbara Overholser,** Columbus, Ohio *Term Expires June 30, 2001*
Retiree-Member:	**Mary Kasunic,** Wickliffe, Ohio *Term Expires June 30, 2000*
ExOfficio Member:	**Betty Montgomery** *Attorney General*
ExOfficio Member:	**Jim Petro** *Auditor of State*

Thomas R. Anderson
Executive Director

Robert E. Hartsook
Deputy Director

Directors:

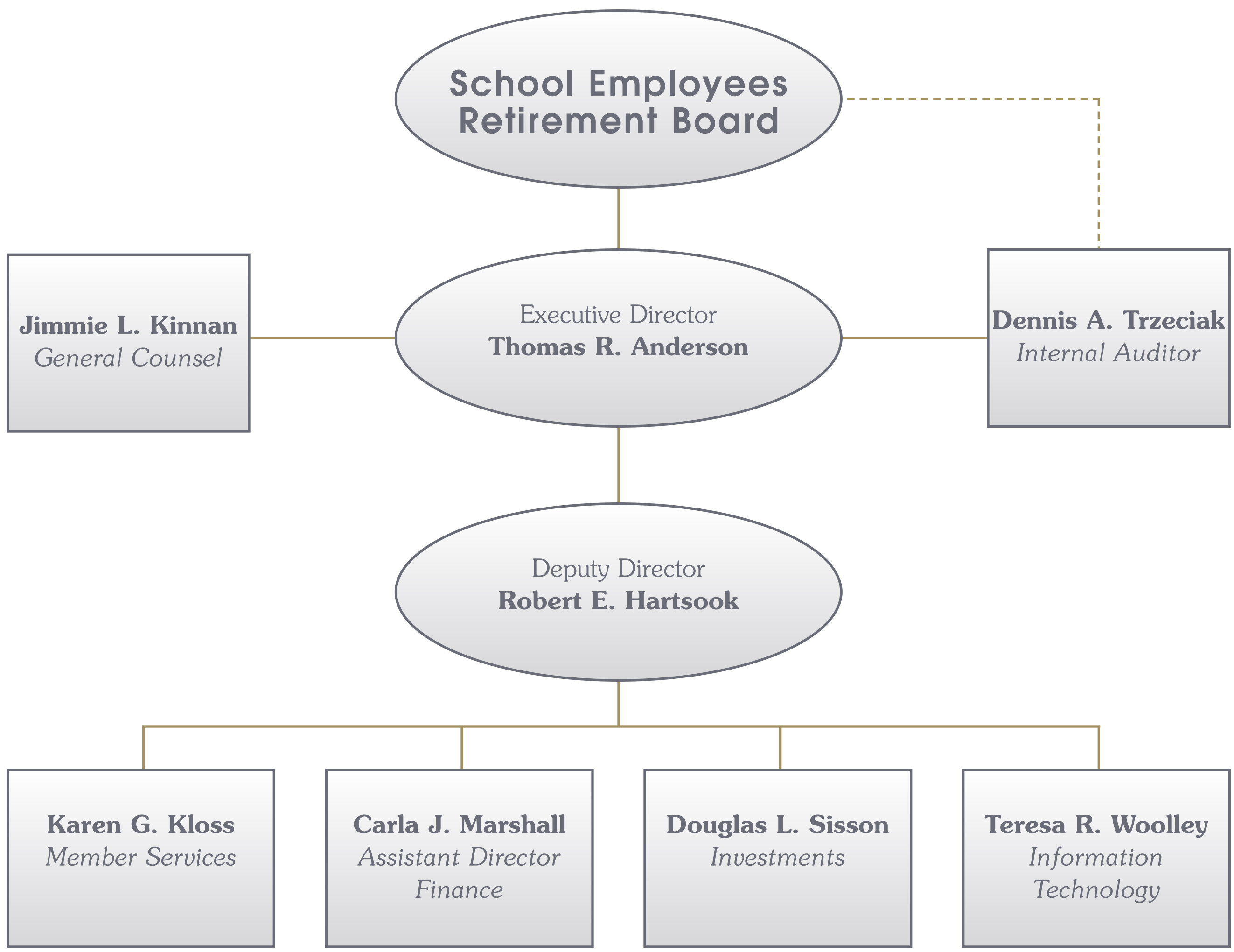
Karen G. Kloss
Member Services

Carla J. Marshall
Assistant Director Finance

Douglas L. Sisson
Investments

Teresa R. Woolley
Information Technology

Organizational Chart



Professional Consultants

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

Independent Auditors
Deloitte & Touche LLP - Columbus, Ohio

Actuaries
Gabriel, Roeder, Smith & Co. - Rolling Meadows, Illinois

Investment Consultant & Money Managers
See page 39

Certificate of Achievement

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, 1998

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

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

Gary Bruebaker
President

Jeffrey L. Esser
Executive Director

School Employees Retirement System

THOMAS R. ANDERSON
Executive Director

ROBERT E. HARTSOOK
Deputy Director

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Finance

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General Counsel

KAREN G. KLOSS
Member Services

DOUGLAS L. SISSON
Investments

TERESA R. WOOLLEY
Information Technology

December 15, 1999

Dear President and Members of the Retirement Board:

We are pleased to submit to you the Comprehensive Annual Financial Report of the School Employees Retirement System of Ohio (SERS) for the fiscal year ended June 30, 1999. The report provides information about the financial operations of the System, including management's stewardship of the funds entrusted to the System and compliance with all legal requirements placed on the System. The management of SERS has responsibility for the accuracy of the contents and the completeness and fairness of the presentation. Our internal accounting controls are designed to ensure the security of member and employer contributions, to assure responsible safeguarding of our assets and to provide a degree of reliability to all our financial records.

The report is divided into six sections:

- the Introductory Section which contains a Letter of Transmittal, along with the identification of the administrative organization, Certificate of Achievement for Excellence in Financial Reporting and a summary of federal and state legislation affecting the System over the past year;
- the Financial Section which contains an independent auditors' report from our certified public accountants, Deloitte & Touche LLP, and the financial statements of the System;
- the Investment Section which includes the investment report and schedules of portfolio activity for the past year;
- the Actuarial Section which contains a letter expressing the opinion of our consulting actuaries, Gabriel, Roeder, Smith & Company and results of their annual actuarial valuation;

- the Statistical Section which includes significant data pertaining to the System; and
- the Plan Summary Section which provides a concise explanation of the various benefit plans which we provide to our members.

SERS is a cost-sharing multiple-employer defined benefit public employee retirement system established by the Ohio General Assembly in 1937 to provide retirement benefits to employees of the Ohio public schools who are not required to possess a certificate in order to perform their duties. Benefits provided to participants in SERS include age and service retirement, disability benefits, survivor benefits, death benefits and post-retirement health care benefits.

For a more complete description of employees eligible for membership in SERS, as well as benefits provided upon retirement, disability or death, please see the Plan Summary section on page 57.

MAJOR INITIATIVES

During fiscal 1999 Governor George Voinovich signed two bills that had a significant impact on SERS and SERS retirees. The first, H.B. 648, made several changes to our disability and survivor benefit processes. The elimination of the remarriage penalty for spousal survivor benefits sent SERS' staff looking for former recipients who had remarried prior to age 55 to give them the good news that their benefit would be reinstated. The second bill, H.B. 673, provided several benefit enhancements to retirees: an increase in the benefit formula for years of service over thirty, an increase in the death benefit to $1,000 and an increase in the Medicare B premium reimbursement with a retroactive provision to January 1992. The retroactive payments were mailed last December to over forty-one thousand eligible retirees, and the maximum payment was $588.

Throughout the year, we have continued our preparation for Y2K. This effort has involved staff from all departments as we have not only remediated our internal software and hardware; we have contacted investment managers, insurance carriers, banks and other entities to assess their readiness. We have also documented contingency plans and made special arrangements for the events surrounding the weekend of January first. All mission critical systems are ready for the change in the calendar and while it is likely that there will be some disruption due to Y2K, we expect that it will have minimal impact on the operations of SERS.

SERS has occupied its current building since 1981. Over the years growth in the number of employees was accommodated by adding workstations, remodeling to increase usable workspace and more recently, renting office space in a neighboring building. After exploring several options, we decided that the best solution was to erect a new building with space leased to tenants that could be used for SERS' expansion in the future. We acquired the land in downtown Columbus and broke ground for SERS' new home in October. We expect to move in during the summer of 2001.

INVESTMENTS

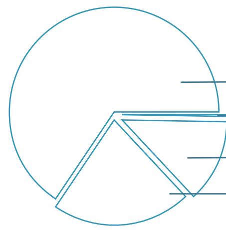
SERS invests accumulated funds to maximize both current income yield and long-term appreciation. The primary objective of our investment policy is to assure that the System meets its responsibilities for providing retirement and other benefits. The portfolio is diversified to maximize total return on assets while operating within prudent parameters of risk, to protect principal from severe depreciation during adverse market conditions and to achieve investment results competitive with those of the broad market. Details of portfolio composition, rates of return and information concerning our investment policy and operations are provided on pages 33 through 44 of this report.

The fair value of the investments of the System was $8,300 million at June 30, 1999, an increase of $815 million from the previous year. Our portfolio returned 12.1% for the year ended June 30, 1999, exceeding our actuarial rate of return of 8.25%.

FINANCIAL HIGHLIGHTS

The financing of retirement and health care benefits is derived from employee and employer contributions and through investment earnings. Contributions and investment income for fiscal year 1999 totaled $1,318,595,224. This amount includes realized and unrealized investment gains and losses. The employee and employer contribution rates during fiscal 1999 remained unchanged from the prior year at 9% and 14%, respectively.

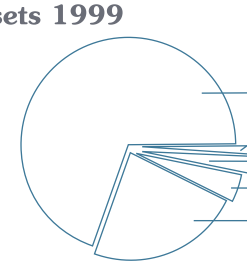
Additions to Plan Net Assets 1999
(millions of dollars)



	1999	1998	Increase (Decrease)	
Member Contributions	$ 166.9	$ 155.1	$ 11.8	7.6%
Employer Contributions	283.2	266.4	16.8	6.3
Investment Income (net)	865.3	1,148.7	(283.4)	(24.6)
Other	3.2	2.1	1.1	52.3
Total	$1,318.6	$1,572.3	$ (253.7)	(16.1)%

Expenses are incurred primarily for the purpose for which SERS was created, the payment of benefits. Included in the total expenses for 1999 were benefit payments, refunds of contributions due to member terminations or deaths, transfers to other Ohio Systems to provide benefits for those members who had membership in more than one system, and administrative expenses. Expenses for fiscal year 1999 totaled $547,368,378, an increase of 13.5% over fiscal 1998 expenses. Health care expense increased 12.9% versus last year's increase of 14.8%. The major component of this increase came from higher costs and usage of the mail order prescription drug plan.

Deductions from Plan Net Assets 1999
(millions of dollars)



	1999	1998	Increase (Decrease)	
Retirement Payments	$ 380.9	$ 335.8	$ 45.1	13.4%
Health Care Payments	126.4	111.9	14.5	12.9
Refunds	22.2	18.5	3.7	20.0
Administrative Expenses	14.5	12.0	2.5	20.8
Other	3.4	3.9	(0.5)	(12.8)
Total	$ 547.4	$ 482.1	$ 65.3	13.5%

FUNDING AND RESERVES

Funds are derived from the excess of revenues over expenses, and are accumulated by SERS in order to meet current and future benefit obligations to retirees and beneficiaries. The higher the level of funding, the larger the accumulation of assets and the greater the investment income potential. Net income for the fiscal year 1999 resulted in an increase in the fund balance of $771 million.

The actuarial valuation for funding purposes, for the year ended June 30, 1999, reflects an unfunded accrued liability for pension benefits of $203 million. This liability represents the difference between the computed actuarial accrued liability to be paid members and retirees and total valuation assets for basic benefits. This is a significant reduction in our unfunded liability, a result of excellent investment returns and the Board's emphasis on sound financing principles and firm control of expenses.

The employer contribution rate of 14% is allocated by Board policy to cover the normal cost and amortization of the unfunded actuarial accrued liabilities for basic pension benefits. The remainder goes toward the funding of post-retirement health care benefits, which are funded on a pay-as-you-go basis. To provide additional funding for health care, employers pay a surcharge for members whose salary is less than a minimum amount.

Additional information regarding funding, including fiscal year 2000 contribution rates and amortization period, is provided within the Actuarial Section (pages 46 to 52) of this report.

AWARDS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to SERS for its comprehensive annual financial report for the fiscal year ended June 30, 1998. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. SERS has received a Certificate of Achievement for the last fourteen consecutive years. We believe our current report continues to conform to the Certificate of Achievement Program requirements, and we are submitting it to GFOA.

ACKNOWLEDGEMENTS

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

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

Respectfully submitted,

Thomas R. Anderson

Thomas R. Anderson
Executive Director

Carla J. Marshall

Carla J. Marshall
Assistant Director Finance

STATE LEGISLATION

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

H.B. 648 (Effective 9/16/98)

This legislation, which was introduced to make changes in the disability statutes governing SERS and the other state retirement systems, was subsequently amended to also include changes in survivor benefits, membership and transfer of service credit provisions. The legislation resulted in changes in the disability process; elimination of the "remarriage penalty" which required the termination of spousal survivor benefits where the spouse remarried prior to age 55; enactment of a spousal consent requirement for a member to elect a retirement plan of payment that would result in a benefit of less than fifty percent to the surviving spouse; transfer of membership of University of Akron law enforcement officers to the Public Employees Retirement System; and transfer of service credit between SERS and the Highway Patrol Retirement System and the Police and Firemen's Disability and Pension Fund.

H.B. 673 (Effective 12/8/98)

This legislation made improvements in SERS benefits. The SERS service retirement benefit formula was increased from 2.1% to 2.5% for service credit over 30 years, and the SERS death benefit was increased from $500.00 to $1,000.00. The Medicare B reimbursement was increased from $24.80 per month to $31.80 per month, and current retirees as of the effective date of the bill received a one-time lump sum payment equal to the difference in the Medicare B reimbursement that was received between January 1, 1992 and the effective date of the bill and the increased Medicare B reimbursement rate.

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

This legislation allows a member of the SERS, State Teachers Retirement System (STRS) or Public Employees Retirement System (PERS) to purchase, through payroll deductions to the system in which the individual is currently a member, service credit that was previously refunded from one of the other systems. The cost and interest to be charged to purchase the refunded service is computed by the system in which the credit to be purchased was originally accrued, and the credit purchased is credit in the system in which it was originally accrued.

The following significant legislation has been introduced and is pending:

H.B. 199 (Introduced 2/17/99)

This legislation would authorize local government employers, which includes SERS-covered employers with the exception of universities and colleges, to contract with one or more providers of alternative retirement plans (ARP). New public employees and current employees with less than five years of retirement system service credit would be allowed to opt out of the state retirement systems' defined benefit plans to choose a defined contribution plan offered by one of the ARP's.

S.B. 81 (Introduced 2/23/99)

This legislation would subject the state retirement systems to qualified domestic relations orders (QDRO's). The amount specified in the QDRO would be withheld at the time a benefit or refund is paid to the member. Similar legislation that would provide for payment to an ex-spouse pursuant to a domestic relations order is likely to be introduced this legislative session.

FEDERAL LEGISLATION

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

SOCIAL SECURITY OFFSET AND WINDFALL

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

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

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

THE TAX REFORM ACT

H.R. 2488. This legislation was introduced by Congressman Archer on July 13, 1999. Although a tax reform act, it includes the following pension provisions: increases the maximum benefit payable under a defined benefit plan and the amount of compensation that may be taken into account for determining contributions and benefits; repeals the annual 25 percent of compensation limit on contributions to defined contribution plans; increases the dollar amount of elective deferrals to section 401(k) plans, section 403(b) annuities and section 457 plans; and allows rollovers of eligible distributions between qualified plans under section 401, section 403(b) annuities, and section 457 nonqualified deferred compensation plans. H.R. 2488 was passed by both the House and the Senate, and vetoed by the President on September 17, 1999. Similar pension provisions are included in the Portman/Cardin pension reform bill, H.R. 1102, which may pass this session.

PATIENT BILL OF RIGHTS ACT OF 1999

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

SCHOOL EMPLOYEES RETIREMENT SYSTEM

Financial Section

SERVING THE PEOPLE WHO SERVE OUR SCHOOLS

INDEPENDENT AUDITORS' REPORT

Deloitte & Touche LLP
155 East Broad Street
Columbus, Ohio 43215-3611
Telephone: (614) 221-1000
Facsimile: (614) 229-4647

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying combining statements of plan net assets of the School Employees Retirement System of Ohio (the "System") as of June 30, 1999 and 1998 and the related combining statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the System as of June 30, 1999 and 1998, and the changes in plan net assets for the years then ended in conformity with generally accepted accounting principles.

As discussed in Note 6 to the financial statements, during the year ended June 30, 1999 the System adopted the provisions of Statement Number 32 of the *Governmental Accounting Standards Board*.

The year 2000 supplementary information in Note 10 to the financial statements is not a required part of the basic financial statements, but is supplementary information required by the *Governmental Accounting Standards Board*, and we did not audit and do not express an opinion on such information. Further, we were unable to apply to the information certain procedures prescribed by professional standards because of the unprecedented nature of the year 2000 issue and its effects, and the fact the authoritative measurement criteria regarding the status of remediation efforts has not been established. In addition, we do not provide assurance that the System is or will be year 2000 compliant, that the System's year 2000 remediation efforts will be successful in whole or in part, or that parties with which the System does business are or will become year 2000 compliant.

Deloitte Touche Tohmatsu

INDEPENDENT AUDITORS' REPORT

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Our audits were conducted for the purpose of forming an opinion on the basic financial statements of the System taken as a whole. The required supplementary information and additional information listed in the table of contents for the years ended June 30, 1999 and 1998 are presented for the purpose of additional analysis and are not a required part of the basic financial statements of the System. This supplemental and additional information is the responsibility of the System's management and has been subjected to the auditing procedures applied in our audits of the basic financial statements for the years ended June 30, 1999 and 1998, and, in our opinion, is fairly stated in all material respects when considered in relation to the basic 1999 and 1998 financial statements taken as a whole. The schedules of administrative expenses and summary of investment expenses for the years ended June 30, 1994 through 1997 were reported on by other auditors whose reports stated that the schedules were fairly stated when considered in relation to the basic financial statements taken as a whole.

The statistical data on pages 54 - 56 are presented for the purpose of additional analysis and is not a required part of the basic financial statements of the System. Such additional information has not been subjected to the auditing procedures applied in our audit of the basic financial statements and, accordingly, we express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 1999, on our consideration of the System's internal control structure and on its compliance with laws and regulations.

Deloitte & Touche LLP

December 10, 1999

COMBINING STATEMENTS OF PLAN NET ASSETS AS OF JUNE 30, 1999 AND 1998

	As of June 30, 1999		
Assets	**Pensions**	**Postemployment Healthcare**	**Total**
Cash (note 4)	$ 1,554,961	$ 23,147	$ 1,578,108
Receivables:			
Contributions:			
Employers (note 3)	67,983,024	90,073,200	158,056,224
Employees (note 3)	11,857,844		11,857,844
State of Ohio subsidies	303,714		303,714
Accrued investment income	39,738,947	591,560	40,330,507
Investment sale proceeds	62,477,126	930,044	63,407,170
Total receivables	182,360,655	91,594,804	273,955,459
Investments, at fair value (note 2)	8,177,965,768	121,738,414	8,299,704,182
Property and equipment, at cost (note 5)	11,670,627	173,731	11,844,358
Less accumulated depreciation	6,877,300	102,377	6,979,677
	4,793,327	71,354	4,864,681
Other assets (note 6)	4,812,084	71,633	4,883,717
Total assets	8,371,486,795	213,499,352	8,584,986,147
Liabilities			
Accounts payable and accrued expenses (note 8)	4,135,376	61,558	4,196,934
Investment commitments payable	326,528,352	4,860,750	331,389,102
Health care benefits incurred and unpaid		20,607,170	20,607,170
Other liabilities (note 6)			
Total liabilities	330,663,728	25,529,478	356,193,206
Net assets held in trust for pension and postemployment healthcare benefits	$ 8,040,823,067	$ 187,969,874	$ 8,228,792,941

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

See notes to financial statements

As of June 30, 1998

Pensions	Postemployment Healthcare	Total
$ 2,111,698	$ 29,415	$ 2,141,113
74,193,432	78,344,052	152,537,484
11,930,404		11,930,404
357,235		357,235
34,758,468	484,170	35,242,638
59,070,890	822,832	59,893,722
180,310,429	79,651,054	259,961,483
7,382,298,062	102,832,188	7,485,130,250
11,465,247	159,706	11,624,953
6,287,992	87,589	6,375,581
5,177,255	72,117	5,249,372
5,393,434	75,128	5,468,562
7,575,290,878	182,659,902	7,757,950,780
3,364,654	46,868	3,411,522
271,928,990	3,787,852	275,716,842
	18,478,651	18,478,651
2,739,510	38,160	2,777,670
278,033,154	22,351,531	300,384,685
$ 7,297,257,724	$ 160,308,371	$ 7,457,566,095

COMBINING STATEMENTS OF CHANGES IN PLAN NET ASSETS FOR THE YEARS ENDED JUNE 30, 1999 AND 1998

	For the year ended June 30, 1999		
Additions	**Pensions**	**Postemployment Healthcare**	**Total**
Contributions:			
Employers (note 3)	$ 143,217,951	$ 140,009,450	$ 283,227,401
Employees (note 3)	166,864,847		166,864,847
State of Ohio subsidies	303,714		303,714
Transfers from other Ohio systems	2,866,920		2,866,920
Total contributions	313,253,432	140,009,450	453,262,882
Investment income:			
Net appreciation in fair value of investments	641,860,394	10,763,820	652,624,214
Interest and dividends	161,594,266	2,709,891	164,304,157
Real estate income, net	63,229,997	1,060,349	64,290,346
	866,684,657	14,534,060	881,218,717
Less investment expenses	15,624,359	262,016	15,886,375
Net investment income	851,060,298	14,272,044	865,332,342
Total additions	1,164,313,730	154,281,494	1,318,595,224
Deductions			
Benefits:			
Retirement	317,125,829		317,125,829
Disability	44,116,363		44,116,363
Survivor	18,127,793		18,127,793
Health Care		126,380,984	126,380,984
Death	1,504,323		1,504,323
Total benefits	380,874,308	126,380,984	507,255,292
Refund of employee contributions	22,177,533		22,177,533
Administrative expenses	14,252,259	239,007	14,491,266
Transfers to other Ohio systems	3,444,287		3,444,287
Total deductions	420,748,387	126,619,991	547,368,378
Net increase	743,565,343	27,661,503	771,226,846
Net assets held in trust for pension and postemployment healthcare benefits:			
Balance, beginning of year	7,297,257,724	160,308,371	7,457,566,095
Balance, end of year	$ 8,040,823,067	$ 187,969,874	$ 8,228,792,941

See notes to financial statements.

For the year ended June 30, 1998

Pensions	Postemployment Healthcare	Total
$ 152,608,486	$ 113,799,774	$ 266,408,260
155,059,879		155,059,879
357,227		357,227
1,761,004		1,761,004
309,786,596	113,799,774	423,586,370
936,171,111	10,010,120	946,181,231
163,107,365	1,744,045	164,851,410
51,302,987	548,563	51,851,550
1,150,581,463	12,302,728	1,162,884,191
14,016,914	149,878	14,166,792
1,136,564,549	12,152,850	1,148,717,399
1,446,351,145	125,952,624	1,572,303,769
278,195,664		278,195,664
40,874,401		40,874,401
15,735,855		15,735,855
	111,900,575	111,900,575
999,172		999,172
335,805,092	111,900,575	447,705,667
18,467,794		18,467,794
11,924,239	127,501	12,051,740
3,915,463		3,915,463
370,112,588	112,028,076	482,140,664
1,076,238,557	13,924,548	1,090,163,105
6,221,019,167	146,383,823	6,367,402,990
$ 7,297,257,724	$ 160,308,371	$ 7,457,566,095

NOTES TO FINANCIAL STATEMENTS JUNE 30, 1999

1. Description of the System

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

The accompanying financial statements comply with the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity.* This statement requires that financial statements of the reporting entity include all of the organizations, activities, functions and component units for which the reporting entity is financially accountable. Financial accountability is defined as the appointment of a voting majority of the component unit's board and either (1) the reporting entity's ability to impose its will over the component unit, or (2) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the reporting entity. SERS does not have financial accountability over any entities. SERS is not considered part of the State of Ohio financial reporting entity. Responsibility for the organization and administration of SERS is vested in the Retirement Board. The Retirement Board is the governing body of SERS. It is comprised of four elected employee-members, one elected retiree-member and two statutory members.

Employer and employee membership data as of June 30 follows:

Employer Members	**1999**	**1998**
Local	370	371
City	193	193
County	61	65
Village	49	49
Technical	62	62
Community	17	0
College	2	2
Other	6	6
Total	760	748

Employee Members	**1999**	**1998**
Retirees and beneficiaries currently receiving benefits	56,632	55,563
Terminated employees entitled to but not yet receiving benefits	7,315	7,049
Total	63,947	62,612
Current Employees		
Vested	63,757	63,133
Non-vested	46,418	43,745
Total	110,175	106,878

Benefits - Members are eligible for retirement benefits based upon age and service credit as follows: age 60 and earning 5 years of service credit; between ages 55 and 60 and earning 25 years of service credit; or earning 30 years of service credit at any age. The benefit is equal to 2.1% of the member's final average salary, or a minimum of $86, multiplied by the number of years of credited service. On

NOTES TO FINANCIAL STATEMENTS *(continued)*

December 8, 1998, legislation was enacted modifying the benefit calculation. Applied retroactively to July 1, 1998, this legislation gives members retiring with more than 30 years of service credit an increased benefit multiplier of 2.5% for each year of earned service in excess of 30 years. This legislation also increased the death benefit to $1,000, effective December 8, 1998, from $500. Death benefits are payable upon the death of a retiree to a designated beneficiary. Members are eligible for disability benefits after completion of 5 years of service. Qualified dependents of a deceased member are eligible for monthly survivor benefits.

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

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

Prior to July 1, 1986, all members receiving a benefit from SERS were eligible to receive health care benefits. Members who elect a service retirement effective July 1, 1986 or later must have at least ten or more years of service credit to qualify for the health care benefits. Effective August 1, 1989, members retiring with less than 25 years of service credit were required to pay from 25% to 75% of the health insurance premium.

2. Summary of Significant Accounting Policies

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

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

Net appreciation (depreciation) is determined by calculating the change in the fair value of investments between the end of the year and the beginning of the

NOTES TO FINANCIAL STATEMENTS *(continued)*

year, less purchases of investments at cost, plus sales of investments at fair value. Investment expense consists of those expenses directly related to SERS' investment operations, as well as the administrative expenses of SERS' investment department.

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

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

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

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

3. Contributions

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

The current employer contribution rate is allocated to basic retirement benefits and health care by the Retirement Board. For fiscal year 1999, the allocation of the employer contribution rate to basic retirement benefits was established as the rate necessary to cover normal cost, plus an amortization of the unfunded actuarial accrued liabilities over a 21-year period. The employer contribution rate (14%) is allocated 7.70% to basic benefits and the remaining 6.30% is allocated to health care benefits.

Employer and employee contributions required and made represented 14% and 9%, respectively, of active member payroll and amounted to $253.7 million and $163.1 million, respectively, in 1999. For basic benefits, the employer contributions consisted of $84.1 million for normal cost and $62.0 million for amortization of the unfunded actuarial accrued liability. Employee contributions are applied to normal cost.

The minimum reserve for health care benefits equals 150 percent of annual health care expenses. Thus the target level for 1999 was $189.6 million, but the actual balance at June 30 was $188.0 million. The health care surcharge on employers is collected for employees earning less than an actuarially-determined minimum pay, pro-rated according to service credit earned. For fiscal year 1999, the minimum has been established as $12,400. The surcharge accrued for fiscal year 1999 included in contribution revenue from employers in the Combining Statement of Changes in Plan Net Assets is $29.0 million.

NOTES TO FINANCIAL STATEMENTS *(continued)*

4. Cash Deposits and Investments

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

As of June 30, 1999, the carrying amount of SERS' deposits was $1,578,108 and the bank balance was $2,655,085. Of the bank balance, $100,000 was insured by the Federal Deposit Insurance Corporation. The remaining bank balance was covered by collateral held in the name of SERS' pledging financial institution, as required by state statute. The carrying amount of deposits is separately displayed on the balance sheet as "Cash".

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

Ohio Revised Code Section 3309.15 directs the Board to invest funds of the System following the "prudent person standard." This fiduciary standard

The following investment summary identifies the level of risk assumed by SERS as of June 30, 1999.

Category 1	**Fair Value**
Asset-backed obligations	$ 123,053,552
Collateralized mortgage obligations	257,282,287
Corporate bonds & obligations	480,952,595
Foreign bonds	18,368,170
U.S. government & agency obligations	1,137,609,563
U.S. government & agency discount notes	245,943,323
Repurchase agreements	172,700,000
Common, preferred & REIT Stocks	1,802,233,943
Total Category 1 Investments	4,238,143,433
Non-Categorized	
Commingled stock funds	3,243,986,490
Venture capital	56,975,827
Real estate	735,060,985
Direct mortgages	25,537,447
Total Non-categorized Investments	4,061,560,749
Total Investments	$ 8,299,704,182

NOTES TO FINANCIAL STATEMENTS *(continued)*

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.

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

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

International — Funds have been invested in a variety of non-U.S. developed and undeveloped countries. These funds are primarily made in foreign equity securities diversified by investment style, country, capitalization range and economic sector. The objective of these funds is to obtain the highest total return consistent with a reasonable degree of risk for this asset class. These funds are managed by external investment advisers in order to achieve these objectives. Managers may occasionally use futures contracts, in the major non-U.S. equity markets, to facilitate trading and temporarily invest cash.

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

Forwards — Forward currency contracts are legal agreements between two parties to purchase and sell a foreign currency, for a price specified at the contract date, with delivery and settlement in the future. SERS enters into these contracts to hedge the foreign currency movements of assets held in the underlying funds. The system hedges 50% of the fair value of its assets in non-U.S. developed countries. As of June 30, 1999, SERS had outstanding contracts in the amount of $585,304,561 which had a maturity date of August 5, 1999, and net gains on rejoined contracts of $4,677,753 for the fiscal year.

Futures — Futures are contracts between two parties to transfer some commodity in the future and are executed in formal commodities exchange markets. Normally, these contracts do not result in delivery of these said commodities, as futures have no formal settlement process. Rather, the gains/losses resulting from these transactions are transferred between the parties on a daily basis and collateral of 5% of the anticipated fair value is required as a good faith agreement. The system uses only the most liquid equity futures to directly hedge the temporary and transactional cash held in domestic equity portfolios in an effort to obtain an equity return for the entire equity allocation. As of June 30, SERS held S&P 500 and Russell 2000 index futures in the amount of

NOTES TO FINANCIAL STATEMENTS *(continued)*

$27,880,050 with an expiration date of September 17, 1999 and realized net gains of $4,921,720 during the fiscal year. The system also held a minimal amount of fixed-income futures at year-end. U.S. Long Bond Futures in the amount of $ 115,906 with an expiration date of September 30, 1999 had realized net gains of $26,173 during the fiscal year.

Other — The system also has investments in various types of fixed-income securities for which we do not hold the underlying securities. Funds are invested in mortgage-backed, asset-backed, interest-only strips, principal-only strips and adjustable-rate securities. These securities serve to maximize yields and to offset volatility in the fund due to interest rate fluctuations. The fair value of these securities totaled $1,186,707,128 at June 30, 1999, representing 14.3% of the fair value of all investments.

Commitments — As of June 30, 1999, outstanding commitments related to the real estate and venture capital investment portfolios totaled $126,037,104.

5. Property and Equipment (Non-Investment Assets)

A summary of property and equipment at June 30 follows:

	1999	1998
Land	$ 1,178,055	$ 1,178,055
Building and improvements ..	4,299,591	4,268,349
Furniture and equipment	6,366,712	6,178,549
	11,844,358	11,624,953
Less accumulated depreciation	6,979,677	6,375,581
	$ 4,864,681	$ 5,249,372

6. Deferred Compensation

Employees of SERS may elect to participate in the Ohio Public Employees Deferred Compensation Program (Program), created in accordance with Internal Revenue Code Section 457. Under the Program, employees may elect to defer a portion of their pay until a later date, usually after retirement. The deferred pay and any income earned thereon is not subject to income taxes until actually received by the employee.

Pursuant to a federal law passed in 1996, the Program implemented a Trust Agreement, effective September 1, 1998, to place all Program assets in a trust for the exclusive benefit of plan participants and beneficiaries. The employer does not include the deferred compensation assets in its financial statements. Previously, those assets were subject to the claims of SERS' general creditors, and so were included in the financial statements. The deferred compensation assets of $2,777,670 at fair value, and the related liability to SERS employees are included in the accompanying financial statements at June 30, 1998.

7. Defined Benefit Pension Plan

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

NOTES TO FINANCIAL STATEMENTS *(continued)*

Plan members are required to contribute 8.5% of earnable salary and employers are required to contribute at an actuarially determined rate. The current rate for miscellaneous employers is 13.55% of annual covered payroll. The contribution requirements for employees and employers are established and may be amended within statutory limits by the PERS Board. The payroll for employees covered by PERS for the year ended June 30, 1999 was $5,037,992; SERS' total payroll was $5,313,107. SERS' contributions to PERS for the years ending June 30, 1999, 1998 and 1997 were $682,648, $619,609, and $562,230, respectively, equal to the required contributions for each year.

In addition to pension benefits, PERS provides postemployment health care benefits, in accordance with state statutes, to all employees who retire with 10 or more years of qualifying Ohio service credit and to disability recipients. At December 31, 1998, the plan had approximately 372,000 active participants.

A portion of each employer's contribution to PERS is set aside for the funding of postemployment health care. During 1997, PERS' Retirement Board adopted a new calculation method for determining this allocation. Under the new method, effective January 1, 1998, employer contributions, equal to 4.2% of member covered payroll, are used to fund health care expenses. Under the prior method, accrued liabilities and normal cost rates were used in determining the 5.11% portion for 1997. For the year ended June 30, 1999, approximately $212,000 of employee payroll contributed by SERS to PERS was the portion used to fund healthcare. Net assets held in trust at December 31, 1998 for postemployment health care benefits were $10.0 billion.

The actuarial present value of accrued postemployment benefits was determined based on the entry age normal method of funding. Significant actuarial assumptions used in the December 31, 1997 valuation (most recent available) were: an investment rate of return of 7.75%, investments valued at book value plus or minus realized or unrealized investment gains and losses amortized at 25% per annum over a four-year period, no change in the number of active employees, base pay rate increases of 4.75% and annual pay increases over and above the 4.75% base increase ranging from .54% to 5.1%.

8. Compensated Absences

As of June 30, 1999, $404,600 was accrued for unused vacation and sick leave for SERS' employees. Employees who retire or resign are entitled to full compensation for all earned unused vacation. Unused sick leave pay is forfeited upon termination. However, employees who retire, become disabled or deceased after five years of service are entitled to receive payment for a percentage of unused sick leave.

9. Contingent Liabilities

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

10. Year 2000 Required Supplementary Disclosure (Unaudited)

The year 2000 issue is the result of shortcomings in the ability to process dates, especially years, in many electronic data processing systems and other equipment that may adversely affect SERS' operations.

NOTES TO FINANCIAL STATEMENTS *(continued)*

Benefit system — The legacy system has been remediated and all changes were implemented in June 1999 prior to the beginning of fiscal 2000. The legacy mainframe operating software will be compliant by December 1999.

Financial reporting system — This is a vendor-supplied system. We will convert to a Y2K compliant version during the second quarter of fiscal 2000.

Investment reporting system — This is also a vendor-supplied system. It has been certified as Y2K compliant, and we have conducted our own testing to confirm the vendor's Y2K certification.

Desktop hardware and software will be compliant by October, 1999. Investment managers, insurance carriers, banks and other critical suppliers of services to SERS have been contacted to assess their readiness for Y2K. Contingency plans have been documented and those plans will be reviewed and updated through December.

However, because of the unprecedented nature of the year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Management cannot assure that the School Employees Retirement System is or will be year 2000 ready, that SERS' remediation efforts will be successful in whole or in part, or that parties with whom SERS does business will be year 2000 ready.

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
1994	$5,381	$3,952	$1,429	73%	$1,361	105%
1995	5,839	4,310	1,529	74	1,430	107
1996	6,184	4,766	1,418	77	1,476	96
1996**	6,129	4,778	1,351	78	1,476	92
1997***	6,504	5,521	983	85	1,552	63
1998****	7,037	6,413	624	91	1,652	38
1999*****	7,535	7,332	203	97	1,768	11

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

Schedule of Employer Contributions*

Year Ended June 30	Annual Required Contributions	Percentage Contributed
1994	$119,849,473	100%
1995	128,603,843	100
1996	150,103,657	100
1997	144,487,949	100
1998	139,955,108	100
1999	127,195,004	100

* The amounts reported in this schedule do not include contributions for postemployment healthcare 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, 1999
Actuarial cost method: Entry age normal
Amortization method: Closed basis as a level percent of active member payroll
Remaining amortization period: 20 Years
Asset valuation method: 4-Year smoothed market
Actuarial Assumptions:
- Investment rate of return* - 8.25%
- Projected salary increases* - 5.25% to 9.25%
- Cost of living adjustments - 3% simple

*Includes inflation at 4.25%

SUMMARY OF INVESTMENT EXPENSES FOR THE YEAR ENDED JUNE 30, 1999

Description of Expense	Assets Under Management	Direct Fees
Domestic equity	$ 3,779,403,876	$ 5,018,768
Fixed income	2,349,831,253	3,030,135
Emerging market equity	83,606,201	148,552
International equity	1,168,968,556	2,313,709
Real estate	804,786,868	3,647,203
Total investment management fees		14,158,367
Custodial fees		559,451
Investment consultant fees		317,336
Investment department administrative expenses (see note 2)		851,221
Total other investment expenses		1,728,008
Total investment expenses		$15,886,375

SCHEDULE OF PAYMENTS TO CONSULTANTS

SERS paid the following consulting fees in fiscal 1999:

Actuarial	$ 79,800
Audit	65,264
Legal Counsel	75,211
Medical Consultant	19,250
Total	$239,525

Schedule of Brokers' Fees is presented on page 40.

ADMINISTRATIVE EXPENSES FOR THE YEARS ENDED JUNE 30, 1999 AND 1998

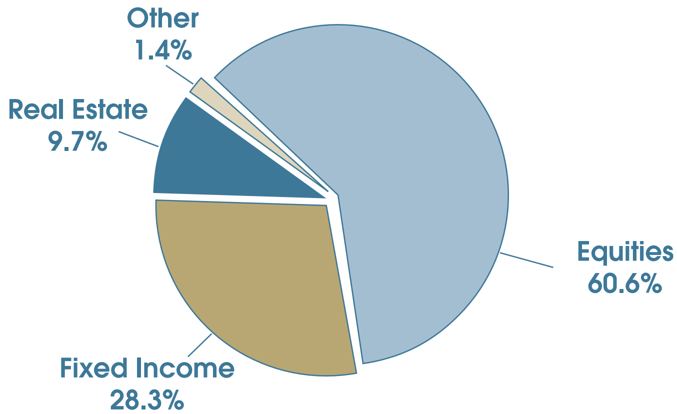
	1999	1998
Personnel Services		
Salaries	$ 4,811,306	$ 4,348,235
Retirement contributions	634,038	563,744
Insurance	569,887	462,151
Total personnel services	6,015,231	5,374,130
Professional Services		
Medical	403,050	365,561
Technical and actuarial	536,704	680,049
Auditing	65,264	35,488
Employee training	74,626	123,863
Total professional services	1,079,644	1,204,961
Communications		
Postage	566,243	486,996
Telephone	73,107	59,912
Retirement counselling services	42,997	33,576
Printing and publications	306,864	210,868
Total communications	989,211	791,352
Other Services		
Computer support services	4,234,226	2,649,035
Equipment repairs and maintenance	36,837	35,303
Building occupancy and maintenance	455,913	354,598
Supplies	116,886	116,854
Transportation and travel	196,097	154,301
Equipment rental	25,698	49,178
Surety bonds and insurance	87,063	85,507
Memberships and subscriptions	51,586	41,325
Retirement study commission	31,862	22,957
Miscellaneous	52,890	35,472
Total other services	5,289,058	3,544,530
Total administrative expenses before depreciation	13,373,144	10,914,973
Depreciation (Non-Investment)		
Furniture and equipment	1,004,567	1,024,595
Building	113,555	112,172
Total depreciation	1,118,122	1,136,767
Total administrative expenses	$ 14,491,266	$ 12,051,740

Investment Section

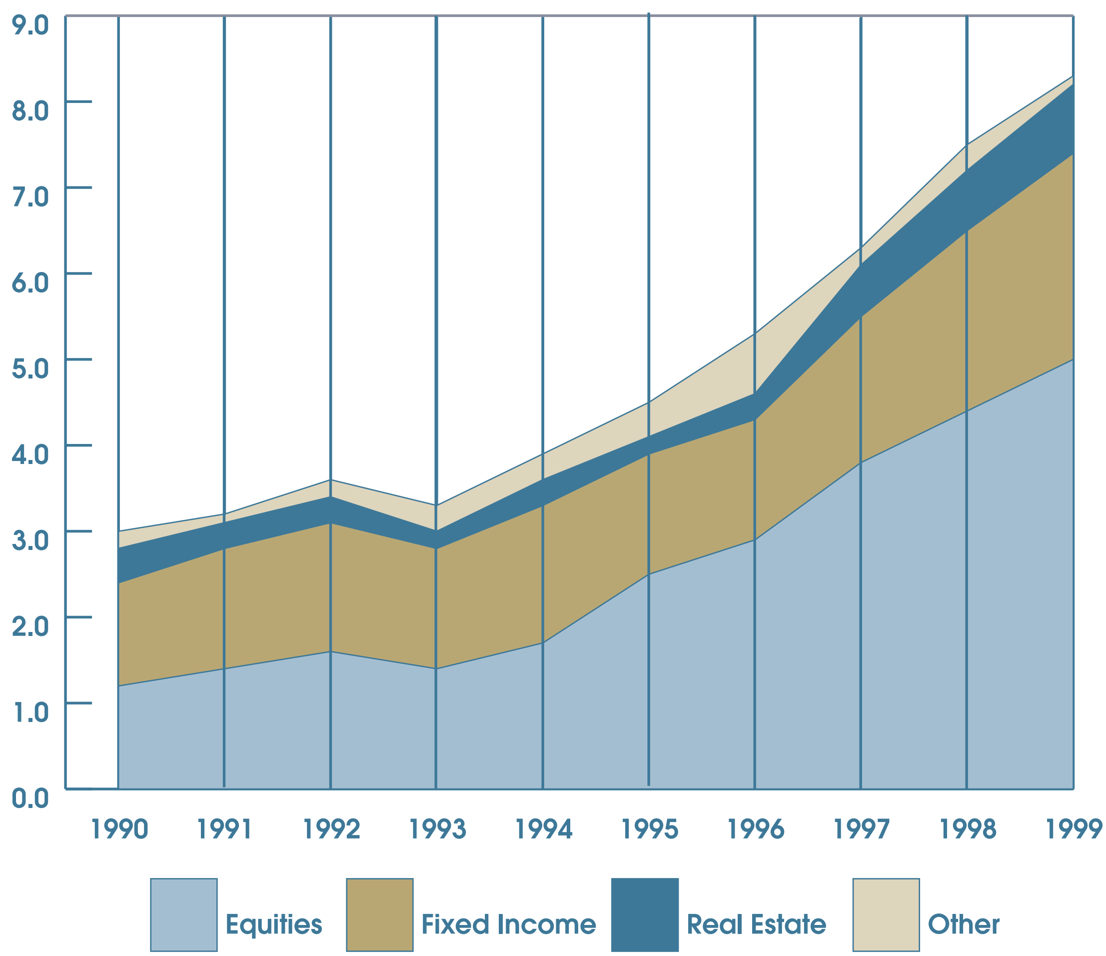
SCHOOL EMPLOYEES RETIREMENT SYSTEM

SERVING THE PEOPLE WHO SERVE OUR SCHOOLS

INVESTMENT DISTRIBUTION AT FAIR VALUE AS OF JUNE 30, 1999



TEN YEAR INVESTMENT COMPARISON AT FAIR VALUE (IN BILLIONS)



INVESTMENT REPORT

Introduction

The Ohio Revised Code and Board-adopted policies govern the way funds are invested at SERS. The Ohio Revised Code requires that the SERS Board and its fiduciaries discharge their duties solely in the interests of the fund's participants and beneficiaries. The Board's Investment Policy specifically outlines diversification methods, return expectations, and risk levels that SERS fiduciaries should adhere to when managing the System's assets. Performance returns were prepared by the Russell Mellon Company in compliance with the Performance Presentation Standards of the Association for Investment Management and Research (AIMR-PPS™). AIMR has not been involved with the preparation or review of this report.

Accomplishments

SERS ended the fiscal year at an all-time high in excess of $8 billion. Our investment performance for fiscal year 1999 was 12.1%, exceeding our actuarial assumption of 8.25%, but below our policy benchmark of 13.7%. This high rate of return was driven in large part by US Equity's performance of 18.7% for the fiscal year. The fund's annualized rate of return for the last three years was 16.5% and 16.6% for the last five years ending June 30, 1999.

During the past year, much work has been completed in the investment area. Several additions were made to the stable of the fund's money management firms. Three small capitalization managers were hired and monies were invested during the second quarter. A new fixed income manager, BlackRock Financial, replaced an existing manager in our fixed income portfolio. Additionally, a new large capitalization "value" manager, Aronson + Partners, replaced an existing manager in our US equity portfolio.

An asset/liability study was started with the assistance of our outside investment consultant. Results and potential changes will occur during fiscal year 2000.

One of our tasks for the past fiscal year was to examine the feasibility of expanding the role of venture capital to include other alternative investments. Continued Board education and a final recommendation by staff will be made during the next fiscal year.

Asset Allocation

As of June 30, 1999, the investment portfolio was diversified into the following asset classes:

- US Equity was 45.5% of the fund compared to the policy target of 45%
- Non-US Equity, including Emerging Markets exposure of 1.0%, was 15.1% of the fund, compared to the policy target of 15%
- US Fixed Income was 28.3% of the fund compared to the policy target of 28%
- Real Estate was 9.7% of the fund compared to the policy target of 10%
- Venture Capital was 0.7% of the fund compared to the policy target of 1%, and
- Short term assets were 0.7% of the fund compared to the policy target of 1%.

Based on the current holdings, the fund is at or very near the long-term policy allocations set by the Board for each asset class.

Equities

SERS' US equity portfolio returned 18.7% for the fiscal year compared to the benchmark of the Russell 3000 of 20.1%. For the past three years the return equaled 25.4% and for the past five years the return equaled 25.3%. The SERS portfolio structure targets 60% of the equity portfolio to be invested in index funds, with the balance managed actively in a multi-manager, multi-style manner.

The Non-US equity portfolio (developed markets) returned 7.0% for the year compared to the benchmark Morgan Stanley Capital International, Europe, Australia, and Far East (MSCI-EAFE) Index of 8.9% (both returns 50% US $ Hedged). For the past three years the return equaled 12.2%. Performance for the past five years has not yet been established.

INVESTMENT REPORT *(continued)*

Fixed Income

The fixed income investments are managed to provide diversification against equities. While all of our managers have a broad U.S. fixed income market mandate, individual management firms have been chosen based on their differing approaches to this mandate. Consequently, within the portfolio there exists some style diversification, which would soften the impact of varying market trends.

Performance of the fixed income portfolio lagged the benchmark index, the Lehman Brothers Aggregate. For the fiscal year ending June 30, 1999, the portfolio returned 2.7% versus the index return of 3.1%. For three years the return equals 7.3%; for five years the return equals 7.7%. On June 30, 1999, the fixed income portfolio had an effective duration of 4.9 years, matching the benchmark's effective duration of 4.9 years.

Compared to the index sector composition, the SERS fixed income portfolio was underweight in treasury and agency securities, and overweight in mortgages, corporate and asset-backed securities. The average quality of the portfolio was AA+ rated, compared to the AAA index rating.

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. As of June 30, 1999 SERS had over $800 million invested in real estate primarily through commingled funds and separate accounts. The real estate portfolio consisted mainly of investments in office buildings, shopping centers and malls, apartment communities, and warehouse/industrial buildings. Approximately five percent of the real estate portfolio was allocated to real estate investment trusts (REITs).

For fiscal year 1999, the NCREIF Property Index, a barometer of private U.S. real estate returns, had a total return of 14.5%, very high by historical standards. Looking at our place in the most recent real estate cycle, markets are generally in equilibrium, with pockets of overbuilding in certain areas. The REIT benchmark, the NAREIT Equity Index, produced a total return of (9.0)%.

During fiscal year 1999, the SERS real estate portfolio produced a total return of 9.6%. For the three-year period ending June 30, 1999, the SERS real estate portfolio produced a return of 11.3%.

Venture Capital

The SERS $57 million venture capital portfolio produced a total return of 39.6% during fiscal year 1999. Three- and five- year returns have been 5.2% and 32.9% respectively. During the year, we have been examining the feasibility of widening our focus beyond venture capital into other alternative investments, including other forms of private equity investments.

Fund Strategy

In the coming fiscal year, finishing the asset/liability study with the consultant will be the key assignment. The allocation to each asset class remains one of the most important decisions that a Board makes. Additionally, as part of the process, we will be reviewing the structure of our US and Non-US Equity portfolios and revisiting the active/passive mix within these portfolios.

The real estate portfolio will make modest changes during the fiscal year. A shift of funds into the public markets as well as higher return vehicles during the year will broaden the focus of our activities. Finally, as mentioned earlier, we plan on presenting a recommendation regarding whether or not to broaden our investment guidelines beyond venture capital into other areas of private equity.

Prepared by Investment Department staff of SERS

SCHEDULE OF INVESTMENT RESULTS FOR THE YEARS ENDED JUNE 30

	1999	1998	1997	1996	1995	Annualized Rates of Return 3-Year	5-Year	10-Year
Domestic equity								
SERS	18.7%	28.1%	29.6%	25.0%	24.8%	25.4%	25.3%	17.5%
Standard & Poor's 500 Index	22.7	30.3	34.8	26.1	26.1	29.2	27.9	18.8
Russell 3000 Index	20.1	28.8	30.6	26.0	24.9	26.4	26.0	17.9
International developed markets equity								
SERS	7.0	12.6	17.1	22.2	-	12.2	-	-
MSCI-EAFE 50% U.S. $ Hedged Index	8.9	11.5	17.7	22.2	-	12.6	-	-
International emerging markets equity								
SERS	43.9	-	-	-	-	-	-	-
MSCI Emerging Markets Free Index	28.7	-	-	-	-	-	-	-
Fixed-income								
SERS	2.7	10.8	8.5	5.2	11.3	7.3	7.7	8.1
Lehman Bros. Aggregate Index	3.1	10.5	8.2	5.0	12.5	7.2	7.8	8.2
Real estate (net of fees)								
SERS	9.6	12.2	12.2	10.8	10.6	11.3	11.2	5.5
NCREIF Index (one quarter in arrears)	14.5	16.0	10.1	8.2	7.9	13.5	11.1	5.5
Short-term								
SERS	4.9	5.6	5.5	5.8	5.5	5.3	5.5	5.5
Salomon Bros. 30 Day Treas. Bill Index	4.3	4.9	4.9	5.2	4.8	4.7	4.8	4.8
Venture capital (net of fees)								
SERS	39.6	10.5	(24.5)	116.6	64.3	5.2	32.9	19.9
Standard & Poor's 500 Index + 500 bp	27.7	35.3	39.8	31.1	31.1	34.2	32.9	23.8
Total portfolio								
SERS	12.1%	18.6%	19.0%	16.8%	16.6%	16.5%	16.6%	12.3%
*Policy Benchmark	13.7%	19.3%	20.1%	16.4%	16.0%	17.7%	17.1%	12.1%

Source: Russell Mellon Company

All returns are reported gross of fees, unless otherwise indicated, using a time-weighted rate of return based on the market rate of return. SERS has prepared and presented this report in compliance with the Performance Presentation Standards of the Association for Investment Management and Research. AIMR has not been involved with the preparation or review of this report.

*Policy Benchmark consists of: 45% Russell 3000, 14.5% MSCI-EAFE (50% Hedged), 1% S&P 500+500 bp, 28% Lehman Brothers Aggregate, 10% NCREIF Property (1 qtr in arrears), 1% Salomon Bros. 30 day T-bill, and .5% MSCI Emerging Markets Free Index.

INVESTMENT SUMMARY AS OF JUNE 30, 1999

Portfolio Type	Fair Value	% Of Total Fair Value	Policy	Policy Range
Domestic Equity	$3,779,403,876	45.5%	45.0%	42-48%
Fixed Income	2,349,831,253	28.3	28.0	25-31
International Equity	1,168,968,556	14.1	14.5	10-16
Real Estate	804,786,868	9.7	10.0	5-15
Short Term	56,131,601	0.7	1.0	0-3
Emerging Markets Equity	83,606,201	1.0	0.5	0-4
Venture Capital	56,975,827	0.7	1.0	0-3
TOTAL	$8,299,704,182	100.0%	100.0%	

LARGEST INDIVIDUAL STOCK HOLDINGS AS OF JUNE 30, 1999

	Description	Shares	Market Price	Fair Value
1)	Cisco Systems, Inc.	643,843	$ 64.500	$41,527,874
2)	Microsoft Corp.	387,300	90.188	34,929,812
3)	General Electric Co.	280,680	113.000	31,716,840
4)	Intel Corp.	498,248	59.500	29,645,756
5)	MCI Worldcom, Inc.	265,150	86.063	22,819,604
6)	Merck & Co., Inc.	287,900	73.625	21,196,638
7)	Bristol Myers Squibb Co.	298,100	70.438	20,997,568
8)	IBM	146,400	129.250	18,922,200
9)	Wal-Mart Stores, Inc.	357,200	48.250	17,234,900
10)	Bank of America, Inc.	220,083	73.313	16,134,945

LARGEST INDIVIDUAL FIXED-INCOME HOLDINGS AS OF JUNE 30, 1999

Description	Rating	Coupon	Date	Par Value	Market Price	Fair Value
1) FNMA TBA	AAA	6.000	07/01/29	$87,940,000	$ 94.031	$82,691,081
2) FNMA TBA	AAA	6.500	07/01/29	74,490,000	97.000	72,255,300
3) Treasury Note Inflation Adjusted	AAA	3.625	04/15/28	56,170,000	97.083	54,531,344
4) FHLMC TBA	AAA	6.500	07/01/29	55,110,000	97.500	53,732,250
5) Treasury Note	AAA	6.375	08/15/27	29,525,000	102.469	30,253,972
6) Treasury Note	AAA	6.875	07/31/99	23,500,000	100.156	23,536,660
7) Treasury Note	AAA	7.875	08/15/01	21,500,000	104.562	22,480,830
8) Treasury Note	AAA	5.500	05/31/03	20,985,000	99.234	20,824,255
9) FHLMC Series 2125	AAA	6.000	10/15/08	20,000,000	98.687	19,737,400
10) FHLMC Series 1693-H	AAA	6.000	12/15/08	20,000,000	98.093	19,618,600

A complete listing of holdings is available upon request.

INVESTMENT CONSULTANT & MONEY MANAGERS

Investment Consultant

Frank Russell Company – Tacoma, Washington

Investment Managers – Domestic Equities

Aronson + Partners – Philadelphia, Pennsylvania

Brandywine Asset Management, Inc. – Wilmington, Delaware

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

Fuller Thaler Asset Management – San Mateo, California

Gardner Lewis Asset Management – Chadds Ford, Pennsylvania

Geewax, Terker & Co. – Phoenixville, Pennsylvania

Lincoln Capital Management Company – Chicago, Illinois

Lord, Abbett & Co. – New York, New York

MacKay Shields Financial Corporation – New York, New York

Oak Associates – Akron, Ohio

State Street Global Advisors – Boston, Massachusetts

Investment Managers – International Equities

Oeschsle International Advisors – Boston, Massachusetts

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

State Street Global Advisors – Boston, Massachusetts

Investment Managers – Emerging Market Equities

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

State Street Global Advisors – Boston, Massachusetts

Investment Manager – Equity Futures

Bank of New York – New York, New York

Investment Manager – Foreign Currency

State Street Global Advisors – Boston, Massachusetts

Investment Managers – Venture Capital

Alpha Capital Partners – Dayton, Ohio

Blue Chip Venture Company – Cincinnati, Ohio

Brantley Venture Partners – Cleveland, Ohio

CID Equity Partners – Indianapolis, Indiana

Morgenthaler Venture Partners – Cleveland, Ohio

Primus Venture Partners – Cleveland, Ohio

Investment Managers – Fixed Income

BlackRock Financial Management - New York, New York

Dodge & Cox, Inc. – San Francisco, California

Johnson Investment Counsel, Inc. – Cincinnati, Ohio

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

Western Asset Management Company – Pasadena, California

Investment Managers – Real Estate

Allegis Realty Investors, LLC – Hartford, Connecticut

CIGNA Investment Management – Hartford, Connecticut

CRA Real Estate Securities – Radnor, Pennsylvania

INVESCO Realty Advisors – Dallas, Texas

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

Koll Bren Realty Advisors – Newport Beach, California

LaSalle Advisors Capital Management, Inc. – Chicago, Illinois

L&B Realty Advisors – Dallas, Texas

Lend Lease Real Estate – New York, New York

Sentinel Real Estate – New York, New York

Master Custodians

Huntington National Bank – Columbus, Ohio

Bank of New York – New York, New York

SUMMARY SCHEDULE OF BROKERS' FEES FOR THE YEAR ENDED JUNE 30, 1999

Brokerage fees on investment transactions for the fiscal year ended June 30, 1999 were $3,312,244. A list of the brokers receiving these fees during the year follows.

Broker Name	Fees Paid	# Of Shares Traded	Avg. Price Per Share
Paine Webber	$ 548,486	10,599,267	$ 0.052
Merrill Lynch Pierce Fenner	324,539	10,529,221	0.031
Instinet	278,951	7,334,243	0.038
Jefferies & Co.	187,189	6,130,411	0.031
Bear, Stearns & Co.	161,079	3,754,501	0.043
Donaldson, Lufkin & Jenrette	142,375	2,609,910	0.055
Salomon Smith Barney, Inc.	148,174	4,552,112	0.033
BT Alex Brown	131,018	3,491,595	0.038
Deutsche Bank	83,312	2,359,629	0.035
Morgan Stanley	83,036	2,427,251	0.034
SBC Warburg Dillon Read	79,107	2,569,833	0.031
Credit Suisse First Boston Corp.	73,862	2,548,706	0.029
Prudential Securities, Inc.	68,270	1,269,835	0.054
J.P. Morgan Securities	66,520	1,746,297	0.038
ABN Amro Chicago Corp.	65,278	2,469,201	0.026
Investec Securities	61,615	1,223,750	0.050
Lehman Brothers	58,627	1,495,619	0.039
Goldman Sachs & Co.	57,322	2,542,472	0.023
Paribas Capital Market	51,949	672,903	0.077
Warburg Dillion Reed	39,441	1,631,750	0.024
Lewco Securities	37,304	648,150	0.058
Dresdner Kleinwort Benson	35,548	2,121,385	0.017
Sanford C. Bernstein	34,306	602,750	0.057
Nations Banc Montgomery Sec., Inc.	30,415	663,100	0.046
Wertheim & Co., Inc.	24,640	132,087	0.187
Fleming Martin Securities	22,503	2,233,230	0.010
Cowen & Co.	21,486	403,813	0.053
Fox Pitt Kelton	20,765	451,678	0.046
Socgen	18,348	31,014	0.592
Oppenheimer & Co., Inc.	18,036	338,340	0.053
ACF	17,164	202,410	0.085
ESI Securities	16,149	469,650	0.034
Legg, Mason	16,016	254,903	0.063
Exane	15,252	62,827	0.243
Cantor Fitzgerald & Co., Inc.	15,186	507,245	0.030
National Financial Services	14,968	264,900	0.057
Commerzbank	11,819	246,130	0.048
Societe Generale	11,376	474,770	0.024
Brokers' fees less than $10,000 each	220,813	15,988,387	0.014
Grand Total	$3,312,244	98,055,275	$ 0.034

SERS participates in a commission recapture program directed by Russell Mellon Co. During the fiscal year SERS received $462,170 in rebates under this program.

INVESTMENT POLICY

A. Purpose.

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

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

B. Background.

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

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

C. Investment Philosophy.

1. Risk Posture.

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

2. Return.

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

3. Diversification.

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

4. Liquidity Requirements.

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

D. Investment Objectives.

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

1. Performance Objectives.

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

   b. Preservation of Principal: To protect the System from severe depreciation in asset value during adverse market conditions.

This objective shall be attained by broad diversification of assets and careful review of risks.

   c. Competitive Results: To achieve investment results competitive with those of the broad market and of similar funds. Long-term results shall be emphasized.

2. Risk.
   a. Stability: While the Board seeks higher long-term investment results, it also seeks to avoid major fluctuations in year-to-year results.
   b. Risk Level: The Board seeks to maintain a reasonable degree of total portfolio risk, defined as that which would be experienced by similar retirement systems.
3. Other Objectives.
   a. Ohio Investments: Where investment characteristics, including return, risk and liquidity, are equivalent, the Board will give careful consideration to investments which will have a positive impact on the economy of Ohio.

E. Implementation Approach.

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

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

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

F. Investment Organization and Responsibilities.

1. Responsibilities of the Retirement Board.

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

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

   a. Ensure that all fiduciaries comply with the Ohio Revised Code and any other applicable regulations and legislation.
   b. Establish investment policies, guidelines and objectives for the assets of the Plan and communicate them to the Investment Staff and Investment Managers.
   c. Appoint and discharge those with responsibility for managing the Plan's assets, including Investment Managers, consultants and any others involved.
   d. Establish a proxy policy; and review proxy governance issues and reports from the Investment Staff and Investment Managers at least annually.
   e. Request, receive and review reports from the Investment Staff and Investment Managers.

2. Responsibilities of the Investment Staff.

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

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

   The Director of Investments shall accept the following responsibilities:

   a. Administer the policies, guidelines and objectives adopted by the Retirement Board of the School Employees Retirement System of Ohio in compliance with the relevant sections of the Ohio Revised Code.
   b. Inform and communicate to other Plan fiduciaries, including all Investment Managers, the requirements of the Ohio Revised Code and the policies, guidelines and objectives adopted by the Retirement Board, including the proxy policy, and monitor their compliance.
   c. Prepare annually an Annual Plan for the investment of the Plan's assets with recognition of the target asset mix ratios and the permissible ranges for asset allocation established by the Board.
   d. Implement the Annual Plan, exercising the judgments allowed by the Board as to the asset allocation ranges for that year.
   e. Report to the Board or its Investment Committee any intra-year changes in the Annual Plan, in the asset allocation among managers, or proposed changes in the policy, guidelines or objectives which the Investment Staff deems desirable or which are recommended by an Investment Manager or other consultants or advisors.
   f. Oversee the activities of the Investment Staff.

3. Responsibilities of the Investment Managers.

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

   a. Manage the assets within its control in compliance with the relevant sections of the Ohio Revised Code and with the policies, guidelines and objectives adopted by the Retirement Board. Vote proxies in accordance with the Retirement Board's policy and guidelines; and periodically prepare a report reflecting proxy voting activity.
   b. Exercise investment discretion within the guidelines and objectives specified, including decisions to buy, hold or sell securities based on the manager's current investment strategy and outlook and compatible with such objectives.
   c. Inform the Retirement Board or the Investment Committee of any substantial changes in investment strategy, portfolio structure, value of assets, and of any organizational changes, including that of ownership, affiliation, organizational structure, financial condition, or changes in professional personnel staffing the investment management organization.
   d. Prepare reports for the Board or Investment Committee prior to any scheduled meetings, but at least on a quarterly basis.
   e. Recommend to the Board or Investment Committee any changes in policy, guidelines or objectives which the Investment Manager believes to be desirable.

4. Criteria For Investment Managers.

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

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

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

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

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

G. Review and Evaluation.

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

1. Quarterly.

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

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

2. Annually.

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

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

Actuarial Section

SCHOOL EMPLOYEES RETIREMENT SYSTEM

SERVING THE PEOPLE WHO SERVE OUR SCHOOLS

ACTUARY'S LETTER

GRS
GABRIEL, ROEDER, SMITH & COMPANY
Consultants & Actuaries
1600 Golf Road • Suite 1200 • Rolling Meadows, IL 60008 • 847-981-4092 • FAX 847-981-4094

December 8, 1999

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

Dear Board Members:

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

In order to measure progress toward this fundamental objective, SERS has annual actuarial valuations performed. The valuations (i) measure present financial position, and (ii) establish contribution rates that provide for the current cost and level percent of payroll amortization of unfunded actuarial accrued liability over a reasonable period. This valuation indicates that the contribution rate, established by the Board of Trustees, for benefits then in effect, meets the basic financial objective. This contribution rate is 5.50% of payroll for 110,175 school employees. The statutory employer contribution is 14% of pay. A SERS policy decision now provides the following allocations:

- to basic benefits and the Medicare Part-B supplement, the portion which will pay normal cost and 20 year amortization of unfunded actuarial accrued liabilities; and
- to health care benefits, the remainder of employer contributions.

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

ACTUARY'S LETTER

Board of Trustees
Page 2

December 8, 1999

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

On the basis of the 1999 valuation of the health care benefits, excluding the Medicare Part-B supplement, the allocated contributions are sufficient to provide for a health care reserve equal to at least 150% of estimated annual claim costs, the funding target established by the Board.

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

The Board of Trustees, at its meeting on November 22, 1999, has opted to support the following changes in the provisions of SERS:

1. Increase the benefit multiplier for each year of service up to 30 from 2.1% to 2.2%.
2. Post retirement increases would be 3% each year regardless of the change in the Consumer Price Index.
3. Medicare Part B reimbursement will be increased to $45.50, to be applied retroactively.

The employer contribution rate to support the basic benefits of SERS including these changes would be 7.01% of pay, based on an amortization period of 25 years. In addition, the surcharge is recommended to be increased from $12,400 to $13,000 for the 2001 fiscal year.

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

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

Respectfully submitted,

Norman S. Losk, F.S.A.
Senior Consultant

Kenneth G. Alberts
Actuarial Consultant

NSL/cml

GABRIEL, ROEDER, SMITH & COMPANY

STATEMENT OF ACTUARY VALUATION AS OF JUNE 30, 1999

ACTUARIAL COST METHOD AND ASSUMPTIONS

Basic Retirement Benefits

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

The present employer contribution rate of 14% is allocated between basic benefits and health care on the basis of SERS' policy decision. For the year ended June 30, 1999, the policy required the determination of a rate for basic benefits which will amortize the unfunded actuarial accrued liabilities over a 21-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, 1999 is 7.70%.

Health Care Benefits

Initially, beginning in 1974, the contribution rate for health care benefits was established at 0.75%, included in a total employer contribution rate of 12.5%. Health care contribution rates have been increased at various times since 1974, and the total employer contribution rate has been increased to the statutory 14% maximum. The portion of the employer contribution rate allocated to health care for the year ended June 30, 1999 is 6.3%. Effective with the 1995 fiscal year the Retirement Board replaced the level cost financing of health care with pay-as-you-go financing. To provide program security and stability, the asset target level for the health care fund is 150 percent of annual health care. For 1999, this resulted in a health care reserve of $188.0 million versus a targeted level of $189.6 million.

In 1988, House Bill 290 provided for an employer contribution surcharge as an additional source of funding for health care. The surcharge is equal to 14% of the difference between the minimum pay and the member's pay, pro-rated for partial service credit. For the fiscal year 1999, the minimum pay has been established as $12,400. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund.

Actuarial Assumptions

The assumptions used for the actuarial valuation were adopted by the Retirement Board after consulting with the actuary. The actuarial assumptions used in making the valuation were revised as set forth in the Gabriel, Roeder, Smith & Company Investigation Report dated April 11, 1996 for the period from July 1, 1990 through June 30, 1995, and were adopted as of the June 30, 1996 valuation. Differences between assumed and actual experience (actuarial gains and losses) become part of unfunded actuarial accrued liabilities. When these differences between assumed and actual experience have been observed to be sizable and persistent, a change is made to the actuarial assumptions.

The valuation assets as of June 30, 1999 were determined on a market-related basis. The asset valuation method recognizes assumed investment income fully each year. Differences between actual and assumed investment income are phased in over a closed four-year period. To this was added the present value of expected future payments for House Bills 284 and 204, or $1,061,510.

The following significant assumptions were used in the actuarial valuation as of June 30,1999:

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

STATEMENT OF ACTUARY *(continued)*

the 8.25 percent investment return rate translates to an assumed real rate of return of 4 percent;

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

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

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

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

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

Sample Ages	Men	Women
50	30%	24%
55	20	18
60	15	30
65	35	30
70	25	38
75	100	100

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

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

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

Men

Sample Ages	Death	Disability	Other
20	0.02%	0.00%	6.09%
30	0.04	0.10	4.60
40	0.08	0.36	3.42
50	0.24	0.80	3.06
60	0.60	2.75	2.20

Women

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

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

STATEMENT OF ACTUARY *(continued)*

Actuarial Accrued Liabilities

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

Actuarial Accrued Liabilities June 30, 1999

Present Value of	Basic Benefits
Future monthly benefits and death benefits to present retirees and survivors	$3,468,662,823
Monthly benefits and refunds to present inactive members	162,811,348
Service allowances to present active members	3,408,125,091
Disability allowances to present active members	395,910,234
Death-after-retirement benefit ($1,000) on behalf of present active members	5,481,855
Survivor benefits on behalf of present active members who die before retiring	53,160,953
Medicare Part B supplement	55,894,079
Refunds of member contributions of present active members	(15,143,642)
Benefits for present active members	3,903,428,570
Benefits for present covered persons	$7,534,902,741

Active Member Valuation Data, 1994 to 1999

Actuarial Valuation as of June 30	Number of Active Members	Annual Payroll (millions)	Average Annual Salary
1994	99,918	$1,360.9	$13,620
1995	100,784	1,429.6	14,184
1996	101,777	1,475.9	14,501
1997	103,739	1,551.6	14,957
1998	106,878	1,651.9	15,456
1999	110,175	1,768.1	16,048

Retirants and Beneficiaries Added To and Removed From Rolls, 1994 to 1999

Fiscal Year Ended June 30	Added to Rolls	Removed from Rolls	Rolls at End of Year	Annual Allowances	Percentage Increase in Annual Allowances	Average Annual Allowances
1994	4,055	2,981	51,479	$245,711,321	7.70%	$4,773
1995	3,532	2,598	52,413	263,707,733	7.32	5,031
1996	4,032	2,967	53,478	283,151,069	7.37	5,295
1997	3,993	2,917	54,554	305,385,702	7.85	5,598
1998	4,174	3,165	55,563	328,271,786	7.49	5,908
1999	4,127	3,058	56,632	350,581,393	6.80	6,191

STATEMENT OF ACTUARY *(continued)*

Analysis of Financial Experience

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

Type of Activity	Gain (or Loss) For Year $ In Millions 1998*	1997	1996	1995	1994
Age & Service Retirements If members retire at older ages than assumed, there is a gain. If younger ages, a loss.	$ 20.1	$ (8.1)	$ (9.7)	$(13.6)	$(18.5)
Disability Retirements If disability claims are less than assumed, there is a gain. If more claims, a loss.	(0.2)	(2.4)	(8.9)	(5.1)	(5.4)
Death-In-Service Benefits If claims costs are less than assumed, there is a gain. If more claims, a loss.	(0.0)	0.6	0.2	0.2	(0.4)
Pay Increases If there are smaller pay increases than assumed, there is a gain. If greater increases, a loss.	50.5	76.1	76.6	(3.4)	45.2
Investment Return If there is greater investment return than assumed, there is a gain. If less return, a loss.	486.6	256.1	126.4	59.2	(6.0)
Retired Health Care** If costs increase less than assumed, there is a gain. If greater increase, a loss.	--	--	--	--	40.7
Withdrawal If more liabilities are released by other separations from active membership than assumed, there is a gain. If smaller releases, a loss.	(20.2)	3.1	4.3	6.0	3.0
Retired Lives If more deaths than assumed, there is a gain. If fewer deaths than assumed, there is a loss.	(1.3)	(1.4)	4.2	4.1	4.3
Other Gains and losses resulting from employment fluctuations, timing of financial transactions, and miscellaneous unidentified sources, as well as differences covered by changes in membership records.	(75.9)	(34.2)	(33.5)	(41.9)	(23.1)
Total Gain (Loss) During Year	$459.8	$289.8	$159.6	$ 5.5	$ 39.8

* The results for 1999 are not available at this time.

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

STATEMENT OF ACTUARY *(continued)*

Short-Term Solvency Test

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

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

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

1) Active member contributions on deposit;

2) The liabilities for future benefits to present retired lives;

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

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

Basic Benefits ($ In Millions)

June 30	(1) Member Contributions	(2) Retired Lives	(3) Present Members (Employer Portion)	(4) Valuation Assets	(1)	(2)	(3)
1994	$ 961	$2,426	$1,994	$3,952	100%	100%	28%
1995	1,034	2,700	2,105	4,310	100	100	27
1996	1,105	2,886	2,193	4,766	100	100	35
1996*	1,105	2,790	2,234	4,777	100	100	39
1997	1,177	2,996	2,332	5,402	100	100	53
1997**	1,177	2,996	2,332	5,521	100	100	58
1998	1,255	3,208	2,474	6,413	100	100	79
1998***	1,255	3,269	2,513	6,413	100	100	75
1999	1,341	3,469	2,725	7,332	100	100	93

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

SCHOOL EMPLOYEES RETIREMENT SYSTEM

Statistical Section

SERVING THE PEOPLE WHO SERVE OUR SCHOOLS

REVENUES BY SOURCE

Table I

Fiscal Year	Member Contributions	Employer Contributions	Employer Contribution Rate as a Percent of Covered Payroll	Investment Income	Other Revenues	Total
1994	$128,246,355	$216,383,274	14.0%	$ 300,408,705	$2,045,066	$ 647,083,400
1995	133,907,577	227,703,212	14.0	785,991,298	2,662,891	1,150,264,978
1996	138,251,468	238,552,082	14.0	581,602,730	2,201,287	960,607,567
1997	146,156,369	259,243,355	14.0	981,931,142*	2,026,549	1,389,357,415
1998	155,059,879	266,408,260	14.0	1,148,717,399*	2,118,231	1,572,303,769
1999	166,864,847	283,227,401	14.0	865,332,342*	3,170,634	1,318,595,224

*GASB 25 was adopted in 1997. As a result, investment income includes net appreciation (depreciation) in fair value of investments for 1997, 1998, and 1999 which can create significant fluctuations. Also included are investment-related administrative expenses.

EXPENSES BY TYPE

Table II

Fiscal Year	Benefits	Administrative Expenses	Transfers to other Ohio Retirement Systems	Refunds	Total
1994	$339,173,588	$10,037,313	$2,665,192	$13,908,639	$365,784,732
1995	361,050,279	9,869,845	2,857,771	17,730,959	391,508,854
1996	381,521,103	9,948,711	3,441,857	18,218,091	413,129,762
1997	410,337,997	10,811,907*	2,863,606	19,618,499	443,632,009
1998	447,705,667	12,051,740*	3,915,463	18,467,794	482,140,664
1999	507,255,292	14,491,266*	3,444,287	22,177,533	547,368,378

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

BENEFIT EXPENSES BY TYPE

Table III

Year Ending June 30	Service	Disability	Survivor	Health Care	Death Benefits and Refunds	Total
1994	$212,437,443	$27,367,790	$13,067,061	$ 85,496,108	$14,713,825	$353,082,227
1995	226,834,067	31,129,681	13,854,968	88,340,780	18,621,742	378,781,238
1996	241,967,864	34,235,981	14,268,272	90,212,211	19,054,866	399,739,194
1997	260,069,372	37,135,003	14,918,620	97,429,197	20,404,304	429,956,496
1998	278,195,664	40,874,401	15,735,855	111,900,575	19,466,966	466,173,461
1999	317,125,829	44,116,363	18,127,793	126,380,984	23,681,856	529,432,825

NUMBER OF BENEFIT RECIPIENTS BY TYPE

Table IV

Years Ending June 30	Service	Disability	Survivor	Total
1994	44,024	4,081	3,374	51,479
1995	44,732	4,285	3,396	52,413
1996	45,555	4,497	3,426	53,478
1997	46,431	4,641	3,482	54,554
1998	47,238	4,792	3,533	55,563
1999	47,959	4,859	3,814	56,632

NUMBER OF 1999 BENEFIT RECIPIENTS

Table V

Amount of Monthly Benefit	Service	Disability	Survivor	Total
$ 1 — 250	23,250	1,286	2,343	26,879
251 — 500	11,276	1,265	937	13,478
501 — 750	5,919	877	320	7,116
751 — 1,000	3,145	577	116	3,838
1,001 — 1,500	2,857	581	69	3,507
1,501 — 2,000	911	201	23	1,135
over 2,000	601	72	6	679
	47,959	4,859	3,814	56,632

RETIREMENT AVERAGES

Table VI

Service Retirement

Year Ending June 30	Service Credit	Monthly Amount	Age	Salary
1994	20.551	$589.07	63.34	$16,704
1995	20.201	587.84	63.50	16,935
1996	20.460	603.12	63.37	17,243
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

Disability Retirement

Year Ending June 30	Service Credit	Monthly Amount	Age	Salary
1994	15.148	$738.03	58.20	$17,370
1995	15.208	790.66	57.04	18,282
1996	14.694	794.67	55.76	18,172
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

SCHEDULE OF AVERAGE BENEFIT PAYMENTS

Table VII

Retirement Effective Dates July 1, 1993 to June 30, 1999	Years Credited Service 5-9	10-14	15-19	20-24	25-29	30+
Period 7/1/93 to 6/30/94						
Average Monthly Benefit	$ 121	$ 264	$ 397	$ 563	$ 691	$1,416
Average Final Average Salary*	809	1,169	1,217	1,371	1,460	2,204
Number of Retirees	194	365	325	366	564	271
Period 7/1/94 to 6/30/95						
Average Monthly Benefit	$ 125	$ 274	$ 414	$ 567	$ 716	$1,406
Average Final Average Salary*	814	1,208	1,306	1,390	1,486	2,221
Number of Retirees	217	353	331	385	557	251
Period 7/1/95 to 6/30/96						
Average Monthly Benefit	$ 151	$ 260	$ 415	$ 573	$ 726	$1,398
Average Final Average Salary*	902	1,168	1,301	1,420	1,503	2,237
Number of Retirees	228	388	355	423	609	302
Period 7/1/96 to 6/30/97						
Average Monthly Benefit	$ 143	$ 294	$ 468	$ 622	$ 775	$1,488
Average Final Average Salary*	777	1,324	1,455	1,538	1,594	2,313
Number of Retirees	201	356	336	376	640	340
Period 7/1/97 to 6/30/98						
Average Monthly Benefit	$ 146	$ 281	$ 458	$ 615	$ 742	$1,411
Average Final Average Salary*	922	1,257	1,448	1,521	1,534	2,219
Number of Retirees	184	373	346	371	696	391
Period 7/1/98 to 6/30/99						
Average Monthly Benefit	$ 214	$ 286	$ 472	$ 631	$ 797	$1,470
Average Final Average Salary*	1,005	1,271	1,501	1,558	1,655	2,301
Number of Retirees	201	337	349	352	689	406

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

NUMBER OF PARTICIPATING EMPLOYERS

Table VIII

Year	Total	Counties	Locals	Cities	Villages	Colleges	Technical	Community	Other
1994	765	83	372	192	49	2	62	0	5
1995	766	83	371	193	49	2	62	0	6
1996	757	76	371	193	49	2	62	0	4
1997	749	67	371	193	49	2	62	0	5
1998	748	65	371	193	49	2	62	0	6
1999	760	61	370	193	49	2	62	17	6

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 760 school districts. This purpose is sustained by the member and employer contributions and the income realized from investment of those contributions.

Administration

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

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

Employer Participation

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

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

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

Employee Participation

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

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

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

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

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

Refund of Contributions

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

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

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

Service Retirement

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

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

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

Service Credit

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

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

Purchased service is service for which payment plus interest is required. The interest rate is 7.5%. Service must be purchased before the date of retirement if it is to be considered in calculating the member's benefits. Payment may be made in a lump sum, in multiples of one month or more, or by tax deferred payroll deduction. The types of service that can be purchased are:

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

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

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

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

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

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

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

Early Retirement Credit

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

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

Benefit Calculation

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

The benefit amount is calculated in this way:

The final average salary amount is multiplied by 2.1% to determine the value of a year of service credit. The formula is 2.5% for credit over 30 years. This value cannot be less than $86. If it is, $86 is used. The value is then multiplied by the number of years of service credit. This calculation yields the annual retirement benefit amount for a person who has service at retirement time.

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

Retirement Options

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

Disability Retirement

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

In addition to the age and service requirements, the member must:

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

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

Death Benefits

The designated beneficiary of any SERS retirees will receive a $1,000 lump sum payment upon the retiree's death. If there is no beneficiary, payment is made to the person responsible for the burial expenses or to the retiree's estate.

Survivor Benefits

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

If the member was eligible for service retirement but had not yet applied for benefits, the surviving spouse or other single dependent beneficiary of any age can draw a monthly lifetime benefit known as the joint survivor option.

Health Care and Other Benefits

Eligible benefit recipients receive medical insurance from SERS. Coverage for a spouse and/or dependent children can be provided by means of a monthly deduction from the benefit. Coverage is offered by the selection of the Aetna insurance company or HMO’s available in certain counties.

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

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

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

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

Cost of Living Increases

After 12 months on the benefit rolls, and each year thereafter, SERS retirees are entitled to an automatic cost of living increase of up to 3%, based on the Consumer Price Index. In addition, the legislature has granted several permanent ad hoc increases to SERS retirees, the last such increase being in 1988.

Re-Employed Retirees' Annuity

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