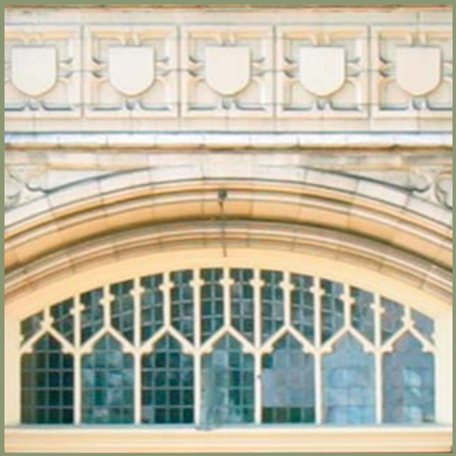
COMPREHENSIVE ANNUAL

# Financial Report

FOR THE YEAR ENDED
JUNE 30, 2008






SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO

SERVING THE PEOPLE WHO SERVE OUR SCHOOLS

COMPREHENSIVE ANNUAL

# Financial Report

FOR THE YEAR ENDED
JUNE 30, 2008

Prepared by SERS Staff

James R. Winfree, Executive Director

School Employees Retirement System of Ohio

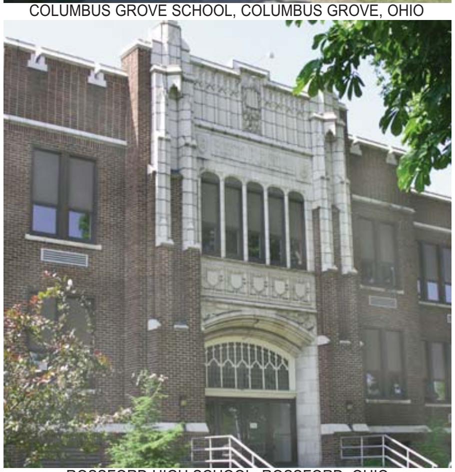
300 East Broad Street, Suite 100

Columbus, Ohio 43215-3746

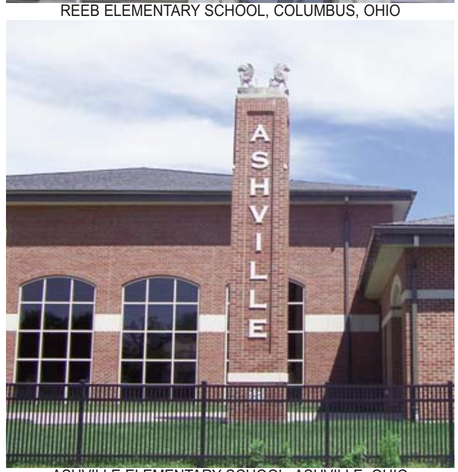
www.ohsers.org


COLUMBUS GROVE SCHOOL, COLUMBUS GROVE, OHIO

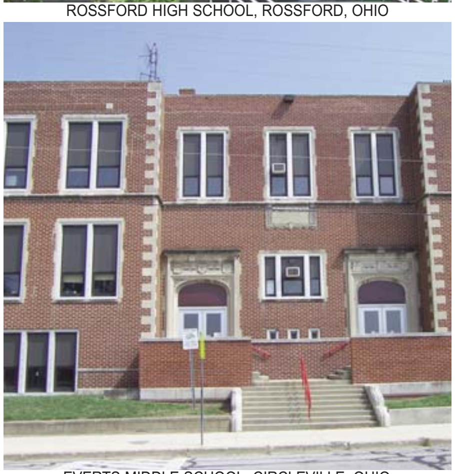
REEB ELEMENTARY SCHOOL, COLUMBUS, OHIO



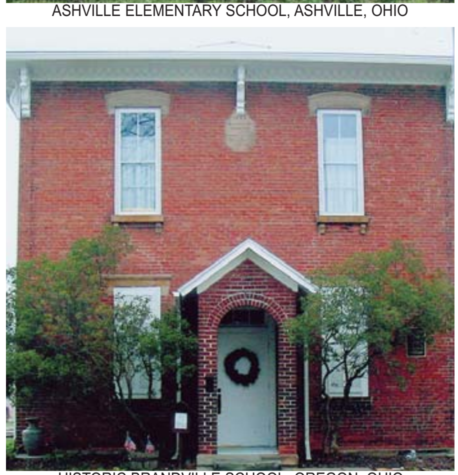
ROSSFORD HIGH SCHOOL, ROSSFORD, OHIO




ASHVILLE ELEMENTARY SCHOOL, ASHVILLE, OHIO



EVERTS MIDDLE SCHOOL, CIRCLEVILLE, OHIO

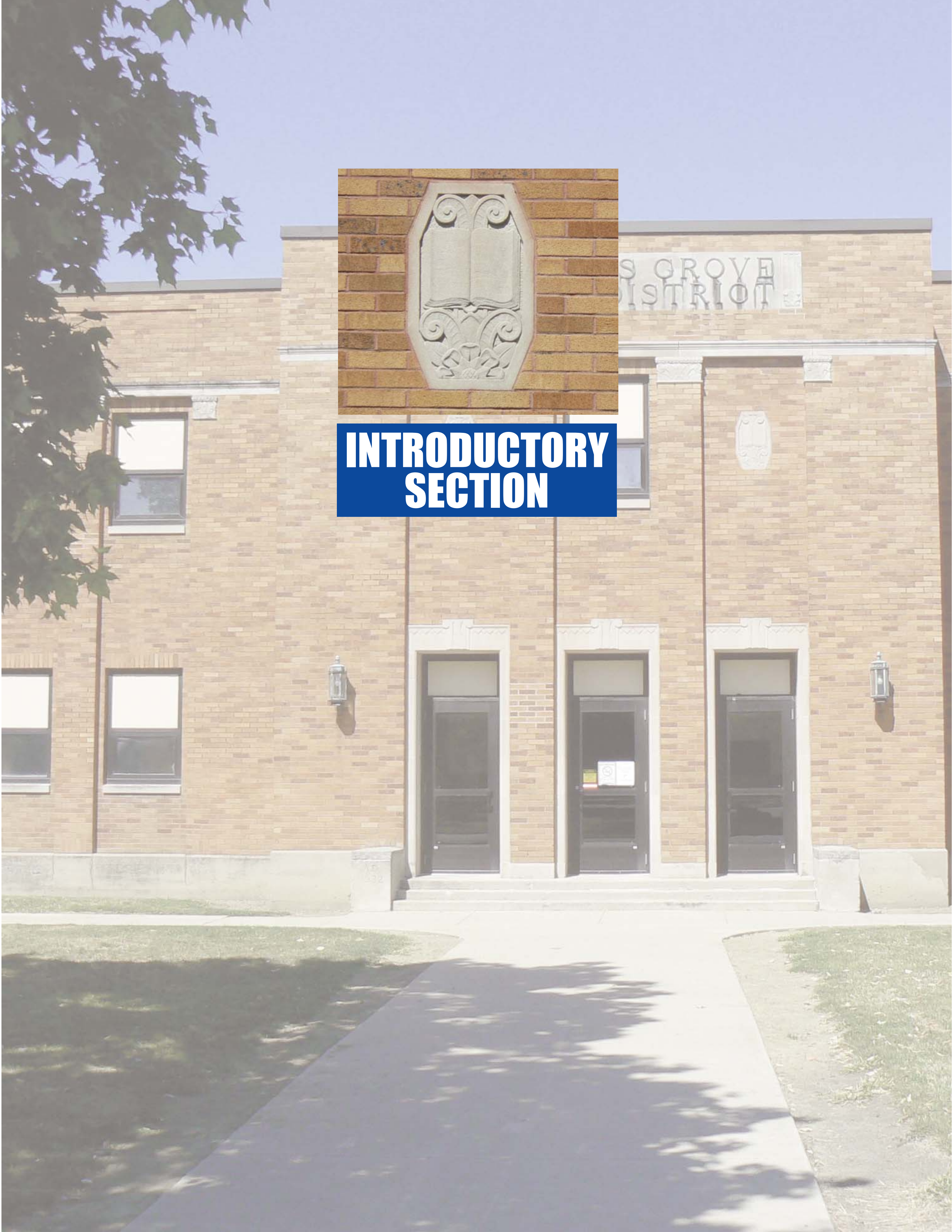


HISTORIC BRANDVILLE SCHOOL, OREGON, OHIO

SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO | SERVING THE PEOPLE WHO SERVE OUR SCHOOLS

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

# Table of Contents



# INTRODUCTORY SECTION

**Left to right:** Standing – Barbara Overholser, Harry Lehman, Barbra Phillips, Daniel Wilson, James Rossler, Jr., Madonna Faragher, James Winfree
Seated – Catherine Moss, Mark Anderson, Mary Ann Howell

Chair:
Mark E. Anderson
Term Expires June 30, 2012

Vice-Chair:
Catherine P. Moss
Term Expires June 30, 2012

Employee Member:
Madonna D. Faragher
Term Expires June 30, 2011

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

Appointed Member:
Harry J. Lehman
Term Expires Dec. 2, 2008

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

Employee Member:
Barbra M. Phillips
Term Expires June 30, 2009

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

Appointed Member:
Daniel L. Wilson
Term Expires Sept. 28, 2008

## Advisors

**Independent Auditor**
Clifton Gunderson LLP - Toledo, Ohio

**Actuary**
Cavanaugh Macdonald Consulting, LLC - Kennesaw, Georgia

**Investment Consultant**
Summit Strategies Group - St. Louis, Missouri

**Hedge Fund Consultant**
Aksia LLC - New York, New York

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

# SERS Executive Staff

**Left to right:** Standing – Robert Cowman, Linda Bill, James Winfree, Alan Tharp, Douglas Foust
Seated – Adam Frumkin, Virginia Brizendine, Lisa Morris, Joseph Marotta

## SERS Retirement Board

- **EXECUTIVE DIRECTOR** — James Winfree
- **INTERNAL AUDITOR** — Dennis Trzeciak
- **DEPUTY EXECUTIVE DIRECTOR** — Lisa Morris
- **LEGAL** — Joseph Marotta
- **INVESTMENTS** — Robert Cowman
- **ADMINISTRATIVE SERVICES** — Alan Tharp
- **MEMBER SERVICES** — Linda Bill
- **FINANCE** — Virginia Brizendine
- **INFORMATION TECHNOLOGY** — Adam Frumkin
- **HEALTH CARE** — Douglas Foust

PPC

Public Pension Coordinating Council

***Public Pension Standards Award***
***For Funding and Administration***
***2008***

Presented to

***School Employees Retirement System of Ohio***

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

*Presented by the Public Pension Coordinating Council, a confederation of*

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

Alan H. Winkle
Program Administrator

# 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, 2007

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

Government Finance Officers Association of the United States and Canada Corporation Seal Chicago

President

Executive Director

SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO

300 EAST BROAD ST., SUITE 100 • COLUMBUS, OHIO 43215-3746 • (614) 222-5853
Toll-Free 866-280-7377 • www.ohsers.org

JAMES R. WINFREE
*Executive Director*

LISA J. MORRIS
*Deputy Executive Director*

December 10, 2008

Dear Chairman and Members of the Retirement Board:

We are pleased to submit the Comprehensive Annual Financial Report (CAFR) of the School Employees Retirement System of Ohio (SERS) for the fiscal year ended June 30, 2008. 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.

Established in 1937 by an act of the Ohio General Assembly, SERS provides pensions and benefits to public and charter school employees who are not required to possess a certificate in order to perform their duties. By statute, benefit plans include retirement for age and service or disability and survivor benefits that are paid upon the death of a member before retirement. A postretirement health care program is also provided, although it is not required by law.

This report is a combined effort of SERS' staff and advisors. We are responsible for the accuracy of the contents and the completeness and fairness of the presentation, including disclosures. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position of the System. A narrative overview and analysis to accompany the basic financial statements is presented as management's discussion and analysis (MD&A). It can be found immediately following the report of the independent auditors in the Financial Section. This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it.

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

## MAJOR INITIATIVES AND HIGHLIGHTS

**Pension Plan Design Legislative Initiative** Legislation that changes pension eligibility standards for SERS' members became effective May 14, 2008. Introduced in April 2007 by Sen. Keith Faber (R-Celina), SB 148 applies to new members only; all current school employees are grandfathered. This is the first change to SERS' retirement eligibility requirements in more than fifty years. The bill sets a minimum retirement age of 55, establishes new combinations of age and service credit necessary to retire, and revises the pension calculation for those who retire before the normal retirement age of 65, or have less than thirty years of service.

**Economic Impact of SERS' Pension Benefits** A continuing goal for SERS and other defined benefit pension plans is to educate our federal and state policymakers about the positive economic impact to our communities as the result of SERS making guaranteed monthly benefit payments to our retired members. Retirees spend their pension benefits to buy goods and services in the communities where they live, resulting in jobs and economic stability. Stable jobs create the tax base to maintain vital public services such as the schools where SERS' retirees formerly worked.

Earlier this year, SERS took another step in the education process for our policymakers by providing each member of the Ohio congressional delegation with a statistical breakdown of the number of SERS contributors, inactive members, and benefit recipients living in their districts. SERS also identified an approximate value of its pension and health care disbursements in each of those districts. We plan to expand this educational effort to all members of the Ohio General Assembly. Our goal is to arm them with information on the value of SERS' defined benefit pension plan for all Ohioans.

**New Health Care Plans** SERS adopted new medical plans, effective January 2008, for those retirees enrolled in Medicare. These plans are known as Medicare Advantage plans; the insurance companies receive a subsidy from the federal government for each Medicare enrollee, and the plans must provide Medicare-equivalent benefits for medical and hospital services. Medicare Advantage plans replace traditional Medicare; there is no network of doctors and hospitals, and retirees may go to any provider that accepts Medicare. We are pleased that we were able to negotiate enhanced benefits beyond traditional Medicare levels and at the same time reduce the costs for retirees and SERS.

SERS, a member of the Rx Ohio Collaborative (RxOC), signed a contract with ExpressScripts, Inc. to provide prescription drug benefits. This pharmacy benefit manager (PBM) for prescription drugs was chosen by the RxOC after an extensive search for a PBM that met the RxOC's criteria for pricing, formulary management, innovation, and administrative simplicity. The new agreement covers a three-year period from January 2008 to December 2010, and it is estimated that SERS will save about $48 million in pharmacy benefit costs over that period. These savings will help lower the health care cost trend rate, which is an integral part in determining annual plan premiums.

**Communications** The fiscal year started with an audit of communications targeted to specific SERS audiences. Staff reviewed each publication and SERS' website for purpose, audience, format, distribution, and frequency. Some publications will be eliminated, all will receive an updated look, and in order to reduce paper and mailing costs, some will only be available electronically, such as the *Bulletin* for employers.

A new publication, delivered by e-mail, was launched in July 2007. The purpose of the *Board Meeting Highlights* is to communicate monthly Board activity to key advocacy groups, SERS' staff, employers, and active and retired members.

Staff also produced SERS' first Communications Plan (2008-2009). This comprehensive plan describes a proactive approach to communications, and our targeted audiences, research, delivery methods, and strategies to enhance SERS' overall communications. We have successfully transitioned publications from Member Services to the communications staff, and established monthly production meetings, production schedules, and an editorial calendar of topics. Included in the Communications Plan is a redesign of our website **www.ohsers.org**. Its initial purpose was to provide information, but today members and employers are conducting business with SERS through the site, and we know that the activity will continue to grow. Every facet of the site will be upgraded and new content, functionality, and services will be added for our members and retirees.

**Member/Retiree Benchmarking Surveys** Staff retained a consultant to conduct a survey to identify trends in satisfaction levels and impressions of SERS' service levels. Members and retirees will be surveyed by telephone over the next three years. The first survey of retirees was conducted in July 2008, and active members followed in August. SERS' staff will use this information to take actionable, measured, and strategic steps to improve our current service levels. For example, SERS publications were redesigned based on member responses in the first year's surveys.

**New Actuary** After an extensive review process that began with seven actuarial firms, Cavanaugh Macdonald Consulting, LLC (CMC)was retained in March as SERS' actuary for the next five years. CMC provides actuarial and consulting services exclusively to state and local government pension and benefit plans, and we look forward to working with them. SERS' previous actuary, Buck Consultants, was one of the finalists and we appreciate their assistance over the last six years. There were no disagreements between management and Buck Consultants on any actuarial issues.

**Change in External Audit Firm** Clifton Gunderson LLP was hired in April 2008 as SERS' external audit firm, replacing KPMG LLP. Every five years the Ohio Auditor of State's office issues a request for proposal on behalf of SERS for audit services and we received excellent proposals from several firms. It should be noted that there were no disagreements between management and KPMG LLP on any accounting or auditing related issues.

## INVESTMENTS

The primary objective of our investment policy is to assure that the System meets its responsibilities for providing statutory retirement benefits and then other permissive benefits as authorized by the Board. The SERS Board assumes a moderate level of risk is reasonable and justified to enhance potential long-term investment results. The portfolio is diversified by asset class, by investment approach, and by individual investments within each asset class to reduce overall portfolio risk and volatility. Summit Strategies Group, SERS' independent investment consultant, assists in selection, monitoring, and evaluation of investment programs and managers.

During fiscal year 2007, the Board authorized a maximum of 10% of fund assets to be invested in hedge funds. Thus, Aksia, LLC was retained in August 2007 as SERS' hedge fund consultant. Aksia advises the Board and investment staff in the construction of the hedge fund portfolio, selection of fund managers, and monitoring of performance and risk. Sixteen hedge fund managers were funded during the fourth quarter of fiscal year 2008.

The net portfolio value in custody on an accrual basis was $10.8 billion on June 30, 2008, a decrease of $836 million from the previous fiscal year. The portfolio return was a negative 5.3% for the fiscal year versus a negative 4.6% for its benchmark. The strongest sectors of the portfolio were private equities and real estate.

## FUNDING

SERS' objective is to receive contributions that, when expressed in terms of percent of active member payroll, will remain approximately level from one generation to the next; and, when combined with present assets and future investment returns, will be sufficient to meet present and future financial obligations. The annual actuarial valuation measures the progress toward funding pension obligations by comparing the actuarial assets to the actuarial liabilities. The actuarial accrued liability for pension and death benefits on June 30, 2008 increased 5.4% to $13.7 billion; the actuarial value of assets increased 6.9% to $11.2 billion; and the funded ratio over a 28-year period increased from 80.8% to 82.0%.

The employer contribution rate is allocated by Board policy to cover the normal cost and amortization of the unfunded actuarial accrued liabilities for basic pension benefits. As a result of the fiscal 2008 actuarial valuation, the employer contribution allocation for the basic pension benefits has been increased from 9.82% to 9.84%. The remainder of the total employer contribution rate of 14% is applied toward postretirement health care benefits, which are funded separately.

GASB Statement 43 — issued to provide more complete financial reporting regarding the costs and financial obligations incurred when public entities provide postemployment benefits other than pensions (OPEB). SERS Medicare B and health care benefits are those postemployment benefits covered by this GASB statement. The actuarial accrued liability for health care benefits on June 30, 2008 is $4.9 billion; and the actuarial value of assets in the Health Care Fund is $392.7 million. The funded ratio of the Health Care Fund is 8.1%. The actuarial accrued liability for Medicare B benefits on June 30, 2008 is $358 million; and the actuarial value of assets in the Medicare B Fund is $131 million. The funded ratio of the Medicare B Fund is 36.7%. For more information on the funding of OPEB, please see the Required Supplementary Information in the Financial Section of this report.

To provide additional funding for health care, employers pay a surcharge for members whose salary is less than a minimum amount. SERS' actuary reviews the minimum salary subject to the surcharge annually and submits a recommendation for a new amount to the Board. For fiscal year 2008, the Board voted to maintain the minimum salary at $35,800. Additionally all benefit recipients who are enrolled in the health care program pay a premium based on the date of retirement and/or years of service credit.

GASB 43 is one way to measure health care benefits. SERS routinely measures its Health Care Fund in terms of years of solvency, which currently extends to fiscal year 2019 if Medicare Advantage continues indefinitely. Ensuring affordable, accessible, and high quality health care for retirees is an enormous challenge for public and private pension funds. We continue to pursue structural changes to the health care program to strengthen and extend the longevity of the Health Care Fund.

**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, 2007. This was the twenty-third consecutive year that SERS has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government entity must publish an easily readable and efficiently organized comprehensive annual financial report that satisfies both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

SERS also received the Public Pension Coordinating Council (PPCC) Public Pension Standards Award For Funding and Administration for 2008. This annual award recognizes SERS for excellence in meeting professional standards for plan funding and administration. Developed by the PPCC to promote excellence among state and local public retirement systems, the Public Pension Standards are the benchmark for measuring current practices of defined benefit plans. The award is based on compliance with specific principles that underlie retirement system achievements in the areas of benefits, actuarial valuations, financial reporting, investing, funding, and disclosure to members.

**ACKNOWLEDGEMENTS**

The preparation of this report is the combined effort of the System's staff under the direction of the Retirement Board. It will be sent to all employer members of SERS and other interested parties and published on our website. Summary financial information will be distributed to active and retired SERS membership. We hope that the readers of this report find it informative and useful.

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, advisors, and others who help ensure the successful operation of the School Employees Retirement System of Ohio.

Respectfully submitted,

| | |
|---|---|
| James R. Winfree<br>Executive Director | Virginia S. Brizendine<br>Finance Director |

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

## State Legislation
## *From the 127th General Assembly:*

**HB 151 Foreign Company Investments (6/13/2007 Re-Referred to House Rules Committee)**

This bill specifies procedures for divesting investments that a public investor holds in directly held, publicly traded companies conducting specified types of business in the Islamic Republic of Iran and/or the Republic of Sudan; prohibits public investors from investing in such a company; and authorizes the Ohio Public Deferred Compensation Board, the alternative retirement program, and the Ohio college savings program to offer a terror-free investment option.

**HB 152 Alternative Retirement Plans (6/27/2007 House Financial Institutions, Real Estate and Securities, 4th hearing)**

This bill requires school boards to establish alternative retirement plans for teachers and school employees.

**HB 270 Pensioner Reemployment (5/22/08 House Financial Institutions, Real Estate and Securities, 4th hearing)**

This bill provides that a member of the Ohio Public Employees Retirement System, Ohio Police and Fire Pension Fund, State Teachers Retirement System of Ohio, or School Employees Retirement System of Ohio who retires and then returns to public employment in the same position will not receive a pension while earning a salary for that employment.

**HB 315 STRS Health Care Fund (9/27/2007 Referred to House Financial Institutions, Real Estate and Securities)**

This bill creates a Health Care Fund in the State Teachers Retirement System of Ohio through an ongoing, dedicated revenue stream of employer and employee contributions. Contributions for each would be increased .5% per year for five years, for a total of 2.5% each. This would provide an extra 5% in contributions overall.

**HB 433 Retirement Benefit Tax Exemptions (4/9/2008 House Ways and Means, 2nd hearing)**

This bill exempts from the personal income tax up to $10,000 in state and federal government retirement benefits for taxable years beginning in 2010 and thereafter.

**HB 600 OPERS Service Credit (7/17/2008 Introduced)**

This bill modifies the purchase of service credit in the Ohio Public Employees Retirement System.

**SB 3 Office Holders (5/13/2008 Signed by Governor; effective immediately)**

This bill provides that the privilege of holding a position of honor, trust, or profit that is forfeited by reason of conviction of certain felonies is not restored on completion of a prison term, period of community control sanctions, or pardon or release by the Adult Parole Authority; imposes, as part of the sentence of a person convicted of certain felonies committed while serving in such a position, the forfeiture of the offender’s right to a retirement allowance, pension, disability benefit, or other right or benefit, other than payment of the offender's accumulated contributions; provides for the notification of the appropriate public retirement system if a member is charged with one of the felonies that could result in such a forfeiture; and imposes a lifetime ban against serving as, and the termination of any current registration of, a legislative agent, retirement system lobbyist, or executive agency lobbyist upon a person convicted of certain felonies.

**SB 148 SERS Retirement Eligibility (2/13/2008 Signed by Governor; effective May 14, 2008)**

This SERS-initiated bill revises the retirement eligibility requirements and early retirement reduction factors for new members of the System after the effective date of the bill.

**SB 161 Sudan Investments (5/8/2007 Referred to Senate Finance and Financial Institutions)**

This bill specifies procedures for divesting investments a public authority holds in a company conducting specified types of business in Sudan, and prohibits public authorities from investing in such a company.

## Federal Legislation
## *From the 110th Congress:*

**HR 82 Social Security Fairness Act of 2007 (1/11/2007 Referred to House Subcommittee on Social Security)**

This bill repeals the Government Pension Offset (GPO) and Windfall Elimination Provision (WEP). A companion bill, S 206, was introduced by Sen. Dianne Feinstein. HR 82 has 351 co-sponsors, including 15 Ohioans: Reps. Chabot, Hobson, Kaptur, Kucinich, Latta, LaTourette, Pryce, Regula, Ryan, Schmidt, Space, Sutton, Tiberi, Turner, and Wilson.

**HR 726 Windfall Elimination Provision Relief Act of 2007 (2/7/2007 Referred to House Subcommittee on Social Security)**

This bill eliminates the windfall penalty if a recipient's combined monthly Social Security and public pension benefit is $2,500 or less, and provides a graduated penalty for benefits over $2,500.

**HR 2772 Public Servant Retirement Protection Act of 2007 (6/19/2007 Referred to House Committee on Ways and Means)**

This bill repeals the WEP and replaces it with a formula based on an individual's actual earnings during his/her years of work. A companion bill, S 1647, was introduced by Sen. Kay Bailey Hutchison.

**HR 2988 Government Pension Offset Reform Act of 2007 (7/10/2007 Referred to House Committee on Ways and Means)**

This bill eliminates the offset penalty if a recipient's combined monthly Social Security and public pension benefit is $1,200 or less, adjusted for inflation. A companion bill, S 1254, was introduced by Sen. Barbara Mikulski.

**S 206 Social Security Fairness Act of 2007 (1/9/2007 Referred to Senate Committee on Finance)**

This bill repeals the GPO and WEP. A companion bill, HR 82, was introduced by Rep. Howard Berman. S 206 has 36 co-sponsors, including one Ohioan, Sen. Sherrod Brown.

**S 1254 Government Pension Offset Reform Act of 2007 (5/1/2007 Referred to Senate Committee on Finance)**

This bill eliminates the offset penalty if a recipient's combined monthly Social Security and public pension benefit is $1,200 or less, adjusted for inflation. A companion bill, HR 2988, was introduced by Rep. Albert Russell Wynn. S 1254 has eight co-sponsors, including one Ohioan, Sen. George Voinovich.

**S 1647 Public Servant Retirement Protection Act of 2007 (6/19/2007 Referred to Senate Committee on Finance)**

This bill repeals the WEP and replaces it with a formula based on an individual's actual earnings during his/her years of work. A companion bill, HR 2772, was introduced by Rep. Kevin Brady.

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# FINANCIAL SECTION

Clifton Gunderson LLP
Certified Public Accountants & Consultants

## Independent Auditors' Report

The Retirement Board
School Employees Retirement System of Ohio
and
The Honorable Mary Taylor, CPA
Auditor of State:

We have audited the accompanying statement of plan net assets of the School Employees Retirement System of Ohio (SERS) as of June 30, 2008, and the related statement of changes in plan net assets for the year then ended. These financial statements are the responsibility of the management of SERS. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of SERS as of June 30, 2007 were audited by other auditors whose report dated December 21, 2007 expressed an unqualified opinion.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of SERS' internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above presents fairly, in all material respects, the plan net assets of SERS as of June 30, 2008, and the changes in plan net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 8, 2008, on our consideration of SERS' internal control over financial reporting and on our test of its compliance with certain provision of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing on internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Offices in 16 states and Washington, DC

Member of HLB International

The Retirement Board
School Employees Retirement System of Ohio
and
The Honorable Mary Taylor, CPA

Management's discussion and analysis on pages 16 through 19 and the schedules of funding progress and employer contributions and related notes on pages 35 and 36 are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as whole. The supplementary information included on pages 38 and 39 is presented for the purpose of additional analysis and is not a required part of the basic financial statements, and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The introductory section on pages 2 through 11, the investments section on pages 42 through 61, the actuarial section on pages 64 through 72, and the statistical section on pages 74 through 86 have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on them.

Clifton Gunderson LLP

Toledo, Ohio
December 8, 2008

## Management's Discussion and Analysis (Unaudited)

This discussion and analysis of the School Employees Retirement System of Ohio (SERS) financial performance provides a narrative overview of financial activities for the fiscal year ended June 30, 2008. We encourage readers to consider the information presented here in conjunction with the information in our Letter of Transmittal, which can be found in the Introductory Section of this report.

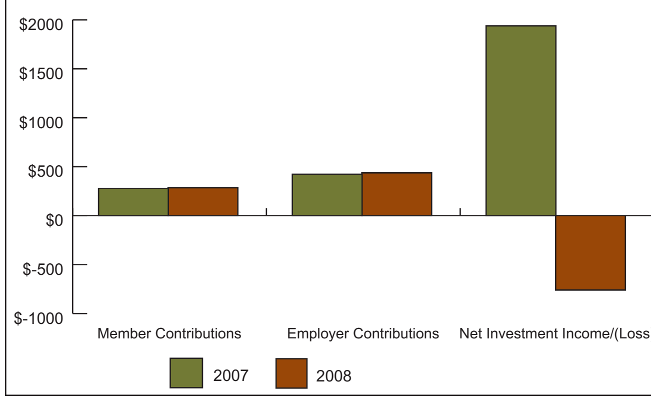
### FINANCIAL HIGHLIGHTS

- Total additions to plan net assets were $56.9 million. Net investment losses were offset by total employee and employer contributions.
- Total deductions from plan net assets for fiscal year 2008 totaled $968.3 million, an increase of 6.5% over fiscal year 2007 deductions.
- Total plan net assets decreased $911.4 million; with all funds recording decreases in net assets, except the Health Care and Qualified Excess Benefit Arrangement (QEBA) Funds.
- Administrative expenses increased by 1.5% and total investment expenses, which include investment advisor fees, manager fees, custodial and recordkeeping costs as well as salaries and benefits for investment staff, increased 32.9%.

### OVERVIEW OF FINANCIAL STATEMENTS

Following the management's discussion and analysis are the financial statements: the *Statement of Plan Net Assets* and the *Statement of Changes in Plan Net Assets*. Reviewing these statements, along with the accompanying notes will give the reader a better understanding of SERS' financial position. Over time, the increase or decrease in net assets serves as a useful indicator of the health of SERS' financial position.

**COMPARATIVE ADDITIONS BY SOURCE**
**FY 2007 & 2008**
*(in millions)*




The *Statement of Plan Net Assets* provides a view at the fiscal year-end of the amount the plans have accumulated in assets to pay for future benefits and any current liabilities that are owed as of the statement date. The *Statement of Changes in Plan Net Assets* presents what has happened to the plans during the fiscal year. If net assets increased, then additions to the plans were greater than the deductions. If net assets decreased, then additions to the plans were less than the deductions from the plans.

**CONDENSED SUMMARY OF TOTAL PLAN NET ASSETS**
*(in millions)*

| | | | Change | |
|---|---|---|---|---|
| ASSETS | 2008 | 2007 | Amount | Percent |
| Cash | $ 380.6 | $ 413.6 | $ (33.0) | (8.0)% |
| Receivables | 658.3 | 473.6 | 184.7 | 39.0 |
| Investments | 11,411.5 | 12,421.1 | (1,009.6) | (8.1) |
| Property & Equipment | 48.1 | 49.0 | (0.9) | (1.8) |
| Other Assets | 0.1 | 33.7 | (33.6) | (99.7) |
| Total Assets | 12,498.6 | 13,391.0 | (892.4) | (6.7) |
| LIABILITIES | | | | |
| Benefits & Accounts Payable | 20.3 | 29.5 | (9.2) | (31.2) |
| Investments Payable | 1,292.1 | 1,263.9 | 28.2 | 2.2 |
| Total Liabilities | 1,312.4 | 1,293.4 | 19.0 | 1.5 |
| Net Assets Held in Trust | $11,186.2 | $12,097.6 | $ (911.4) | (7.5)% |

The *Notes to Financial Statements* supply additional information that is essential for a full understanding of the data provided in the financial statements. The notes describe the history and purpose of the plans; present information about accounting policies and significant account balances and activities; and disclose material risks, subsequent events, and contingent liabilities, if any, that may significantly impact SERS' financial position.

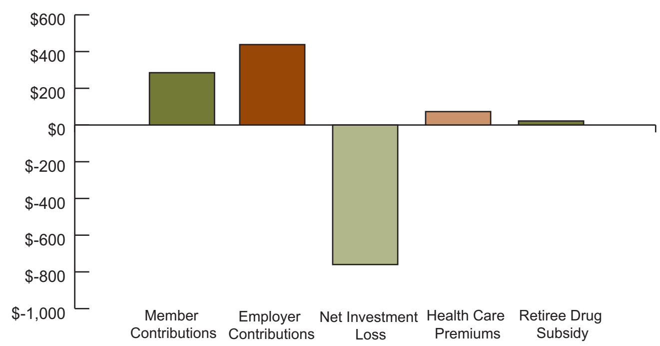
In addition to the financial statements and notes, *Required Supplementary Information* (RSI) is provided. The *Schedules of Funding Progress* show on an actuarial basis whether SERS' ability to pay for benefits is improving or deteriorating over time. Also included in the RSI are the *Schedules of Employer Contributions* and a note to the *Schedules of Funding Progress*. SERS is required to present these schedules for pensions and other postemployment benefits (Medicare B and health care). Following the RSI is other supplementary information; schedules that include detailed information on investment and administrative expenses.

**FINANCIAL ANALYSIS**

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

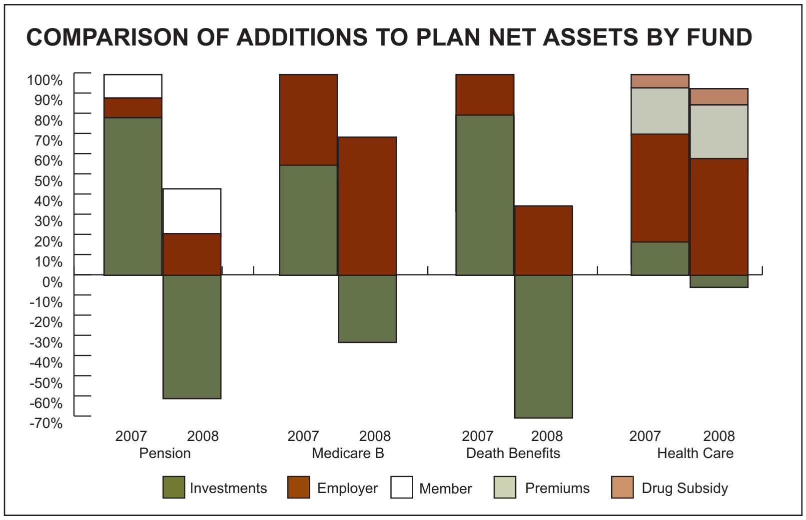
**Additions** SERS is comprised of five separate plans – the Pension Trust Fund, the Medicare B Fund, the Death Benefit Fund, the QEBA Fund, and the Health Care Fund. Pension benefits are funded through a combination of employee and employer contributions and investment income. Medicare Part B premium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

**ADDITIONS TO PLAN NET ASSETS** *(in millions)*




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

| | | | Change | |
|---|---|---|---|---|
| ADDITIONS | 2008 | 2007 | Amount | Percent |
| Contributions | $ 816.7 | $ 792.0 | $ 24.7 | 3.1% |
| Net Investment Income (Loss) | (759.8) | 1,939.1 | (2,698.9) | (139.2) |
| Total Additions | 56.9 | 2,731.1 | (2,674.2) | (97.9) |
| DEDUCTIONS | | | | |
| Benefits | 905.0 | 853.4 | 51.6 | 6.0 |
| Refunds & Transfers | 43.6 | 36.5 | 7.1 | 19.5 |
| Admin. Expenses | 19.7 | 19.4 | 0.3 | 1.5 |
| Total Deductions | 968.3 | 909.3 | 59.0 | 6.5 |
| Net Increase (Decrease) | (911.4) | 1,821.8 | (2,733.2) | (150.0) |
| Balance, Beginning of Year | 12,097.6 | 10,275.8 | 1,821.8 | 17.7 |
| Balance, End of Year | $11,186.2 | $12,097.6 | $ (911.4) | (7.5)% |




The maximum limits for employer and employee contribution rates are set by statute, and both rates have reached those maximums. For financial statement purposes, employee contributions consist of 10% of payroll and member purchases of restored and optional service credits. Employer contributions include 14% of payroll, the employer's share of optional and compulsory purchased service credit, early retirement incentives and the health care surcharge. Active membership increased slightly (1.1%), therefore the contribution increase of 3.1% came primarily from cost-of-living raises.

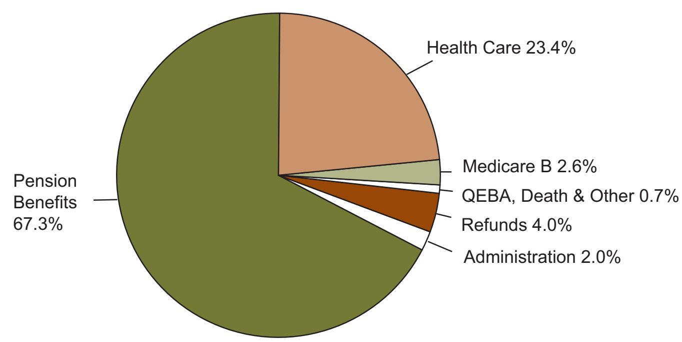
Employer contributions to the Health Care Fund are derived from two sources. The first source is an allocation of the employers' 14% contribution after pension benefits are actuarially funded. This allocation increased from 3.32% to 4.18%. The second is a health care surcharge for members who earn less than an actuarially determined minimum salary, which is established annually by the Board and did not change from the previous year. Over 80% of SERS members earn less than the surcharge minimum salary of $35,800. Additionally, legislated limits on SERS' surcharge revenue restrict the actual surcharge to 1.5% of statewide payroll and no employer pays more than 2.0% of the district's payroll. This year, most employers paid 1.51% of payroll for the surcharge, only 35 of the 1,012 reporting employers paid less than 1.51% or nothing at all. Health care surcharge revenue increased 3.0%, from $40.8 million to $42.0 million. Although employer contributions to the Health Care Fund increased because of the higher allocation of payroll dollars and the increase in surcharge revenue, it was less than the previous year's contributions. In 2007, an additional $41.1 million was added to the Health Care Fund to correct a prior period when the assets of the fund were assigned an assumed rate of return instead of the actual rate of return.

Investment income is distributed proportionately to all funds except the QEBA, which is invested separately in accordance with IRS §415 regulations. Due to the decline in the equity markets, the national housing crisis, and deteriorating economic conditions, SERS recognized an investment loss of nearly $759.8 million in fiscal year 2008. Investment net income is presented net of investment fees and is comprised of interest, dividends, and realized and unrealized investment gains and losses. Income from interest and dividends increased $47.3 million to $355.5 million. Investment expenses increased from $57.4 million to $76.3 million as a result of SERS' mandate to meet asset allocation targets by greater investment in real estate, public equity and other alternative investments. These investment classes add broad diversification and an opportunity for enhanced investment returns; but, they also carry higher management fees, additional consulting fees and extra performance and analytical costs. There were some expense reductions during the year in custodial fees and recordkeeping costs resulting from a full year of having BNY Mellon as our international custodian. More information on Investment results can be found in the Investment Section.

In addition to employer contributions and investment income, additions to the Health Care Fund include health care premiums paid by retirees, which increased 1.5% over the previous fiscal year. Changes to health care plans and shifting more of dependent premium costs to retirees produced mixed results. Career retirees, those with more than 25 years of service, who were in Medicare Advantage plans benefited from lower premiums. Retirees with less than 25 years service credit, and retirees under 65 generally paid higher premiums. Some retirees sought coverage elsewhere and dropped their SERS health plan. The other source of contributions to the Health Care Fund, the federal government's Medicare Part D subsidy program, added $22.0 million in fiscal year 2008, an increase of 8.7% over the previous year.

**Deductions** Expenses are incurred primarily for the purpose for which SERS was created: the payment of benefits to non-teaching Ohio public and charter school employees. Included in the deductions from plan assets for 2008 were benefit payments, refunds of contributions due to member terminations or deaths, the net transfers to other Ohio retirement systems to provide benefits for those members who had membership in more than one system, and administrative expenses.

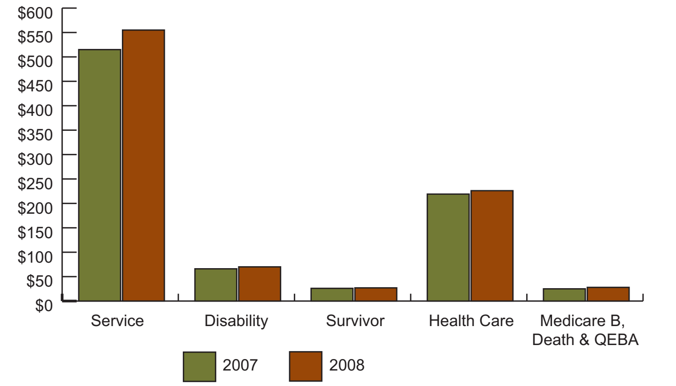
DEDUCTIONS FROM PLAN NET ASSETS




Payments to service, disability, and survivor benefit recipients increased $44.5 million, or 7.0%. Retirees receive an annual 3% cost-of-living allowance on the anniversary of their retirement date. The balance of the increase in retirement benefits results from a larger number of retirees and an increase in the average new annual retirement allowance of 0.8%.

SERS reimburses a portion of the Medicare Part B premium to retirees eligible for SERS' health care program who provide proof of enrollment in Part B. For calendar year 2008, SERS reimbursed $45.50 of the $96.40 monthly Part B premium. The amount of Medicare Part B reimbursement is statutorily defined, so any change in this amount would require legislation. Medicare Part B expense increased 0.8% in fiscal 2008.

COMPARATIVE BENEFIT PAYMENTS
FY 2007 & 2008
*(in millions)*




SERS pays a $1,000 death benefit to the designated beneficiary of service and disability retirees. Payments of death benefits increased 4.9% in 2008.

Health care claims expense increased 3.2% from $219.4 million to $226.4 million. The adoption of Medicare Advantage plans for the over-65 retiree population means that SERS no longer self-insures this group; resulting in a reduction of estimated claims that had not been reported at year-end and the elimination of fees paid to third-party administrators of these plans. SERS also changed to a new Pharmacy Benefit Manager effective January 2008 and realized a decrease in drug claim costs in the second half of the year.

**REQUEST FOR INFORMATION**

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

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

## Statement of Plan Net Assets as of June 30, 2008

| ASSETS | PENSION TRUST FUND | MEDICARE B FUND | DEATH BENEFIT FUND |
|---|---|---|---|
| Cash & Operating Short-Term Investments | $ 341,211,069 | $ 2,928,100 | $ 730,063 |
| Receivables | | | |
| Contributions | | | |
| Employer | 109,408,191 | 7,206,878 | 419,623 |
| Employee | 14,831,039 | – | – |
| Investments Receivable | 392,865,424 | 4,448,492 | 852,678 |
| Other Receivables | 901,836 | – | – |
| Total Receivables | 518,006,490 | 11,655,370 | 1,272,301 |
| Investments, at Fair Value | | | |
| US Equity | 2,440,042,757 | 27,610,553 | 5,294,132 |
| Non-US Equity | 3,286,368,742 | 37,187,241 | 7,130,395 |
| Private Equity | 637,372,606 | 7,212,255 | 1,382,900 |
| Fixed Income | 2,632,042,275 | 29,783,143 | 5,710,711 |
| Real Estate | 1,236,867,236 | 13,995,898 | 2,683,616 |
| Total Investments | 10,232,693,616 | 115,789,090 | 22,201,754 |
| Securities Lending Collateral | 752,541,695 | 8,515,462 | 1,632,781 |
| Capital Assets | | | |
| Land | 3,315,670 | – | – |
| Property & Equipment, at Cost | 60,188,497 | – | – |
| Accumulated Depreciation | (15,419,925) | – | – |
| Total Capital Assets | 48,084,242 | – | – |
| Prepaids and Other Assets | 81,409 | – | – |
| TOTAL ASSETS | 11,892,618,521 | 138,888,022 | 25,836,899 |
| LIABILITIES | | | |
| Accounts Payable & Accrued Expenses | 1,478,478 | 175,042 | 2,269 |
| Benefits Payable | 769,557 | 11,421 | 857,081 |
| Investments Payable | 491,264,443 | 5,558,953 | 1,065,891 |
| Obligations under Securities Lending | 752,541,695 | 8,515,462 | 1,632,781 |
| TOTAL LIABILITIES | 1,246,054,173 | 14,260,878 | 3,558,022 |
| NET ASSETS HELD IN TRUST FOR PENSION AND OTHER POSTEMPLOYMENT BENEFITS | $ 10,646,564,348 | $ 124,627,144 | $ 22,278,877 |

(Unaudited Schedules of Funding Progress are presented on page 35.)

See accompanying notes to the financial statements.

| QEBA FUND | HEALTH CARE FUND | TOTAL |
|---|---|---|
| $ 70,382 | $ 35,694,149 | $ 380,633,763 |
| – | 102,328,043 | 219,362,735 |
| – | – | 14,831,039 |
| 134 | 9,968,110 | 408,134,838 |
| – | 15,073,595 | 15,975,431 |
| 134 | 127,369,748 | 658,304,043 |
| – | 61,781,447 | 2,534,728,889 |
| – | 83,210,270 | 3,413,896,648 |
| – | 16,138,161 | 662,105,922 |
| – | 66,642,841 | 2,734,178,970 |
| – | 31,317,258 | 1,284,864,008 |
| – | 259,089,977 | 10,629,774,437 |
| – | 19,054,221 | 781,744,159 |
| – | – | 3,315,670 |
| – | – | 60,188,497 |
| – | – | (15,419,925) |
| – | – | 48,084,242 |
| – | 1,370 | 82,779 |
| 70,516 | 441,209,465 | 12,498,623,423 |
| 799 | 17,035,785 | 18,692,373 |
| – | – | 1,638,059 |
| – | 12,438,728 | 510,328,015 |
| – | 19,054,221 | 781,744,159 |
| 799 | 48,528,734 | 1,312,402,606 |
| $ 69,717 | $ 392,680,731 | $ 11,186,220,817 |

## Statement of Changes in Plan Net Assets for the year ended June 30, 2008

| ADDITIONS | PENSION TRUST FUND | MEDICARE B FUND | DEATH BENEFIT FUND |
|---|---|---|---|
| Contributions | | | |
| Employer | $ 259,394,723 | $ 18,377,305 | $ 835,348 |
| Employee | 284,910,486 | – | – |
| Other Income | | | |
| Health Care Premiums | – | – | – |
| Medicare Part D Subsidy | – | – | – |
| | 544,305,209 | 18,377,305 | 835,348 |
| Income (Loss) from Investment Activity | | | |
| Net Appreciation (Depreciation) in Fair Value | (1,004,879,964) | (11,547,018) | (2,201,676) |
| Interest and Dividends | 342,030,669 | 3,952,257 | 752,434 |
| | (662,849,295) | (7,594,761) | (1,449,242) |
| Investment Expenses | (73,403,427) | (848,510) | (161,633) |
| Net Income (Loss) from Investment Activity | (736,252,722) | (8,443,271) | (1,610,875) |
| Income from Securities Lending Activity | | | |
| Gross Income | 36,312,100 | 419,596 | 79,883 |
| Brokers' Rebates | (30,685,239) | (354,576) | (67,504) |
| Management Fees | (901,621) | (10,420) | (1,984) |
| Net Income from Securities Lending Activity | 4,725,240 | 54,600 | 10,395 |
| Net Investment Income (Loss), | (731,527,482) | (8,388,671) | (1,600,480) |
| TOTAL ADDITIONS | (187,222,273) | 9,988,634 | (765,132) |
| DEDUCTIONS | | | |
| Benefits | | | |
| Retirement | 554,521,059 | 22,542,191 | – |
| Disability | 69,632,987 | 1,334,470 | – |
| Survivor | 26,837,462 | 1,381,771 | – |
| Death | – | – | 2,185,460 |
| Health Care Expenses | – | – | – |
| | 650,991,508 | 25,258,432 | 2,185,460 |
| Refunds and Lump Sum Payments | 38,907,918 | – | – |
| Net Transfers to Other Ohio Systems | 4,723,303 | – | – |
| Administrative Expenses | 17,652,664 | 5,593 | 41,270 |
| | 61,283,885 | 5,593 | 41,270 |
| TOTAL DEDUCTIONS | 712,275,393 | 25,264,025 | 2,226,730 |
| NET INCREASE (DECREASE) | (899,497,666) | (15,275,391) | (2,991,862) |
| NET ASSETS HELD IN TRUST FOR PENSION AND OTHER POSTEMPLOYMENT BENEFITS | | | |
| Balance, Beginning of Year | 11,546,062,014 | 139,902,535 | 25,270,739 |
| Balance, End of Year | $ 10,646,564,348 | $ 124,627,144 | $ 22,278,877 |

See accompanying notes to the financial statements.

| QEBA FUND | HEALTH CARE FUND | TOTAL |
|---|---|---|
| $ 172,260 | $ 158,393,761 | $ 437,173,397 |
| – | – | 284,910,486 |
| – | 72,707,047 | 72,707,047 |
| – | 21,953,659 | 21,953,659 |
| 172,260 | 253,054,467 | 816,744,589 |
| 1,129 | (25,297,217) | (1,043,924,746) |
| – | 8,766,156 | 355,501,516 |
| 1,129 | (16,531,061) | (688,423,230) |
| – | (1,879,887) | (76,293,457) |
| 1,129 | (18,410,948) | (764,716,687) |
| – | 930,670 | 37,742,249 |
| – | (786,455) | (31,893,774) |
| – | (23,103) | (937,128) |
| – | 121,112 | 4,911,347 |
| 1,129 | (18,289,836) | (759,805,340) |
| 173,389 | 234,764,631 | 56,939,249 |
| 107,772 | – | 577,171,022 |
| – | – | 70,967,457 |
| – | – | 28,219,233 |
| – | – | 2,185,460 |
| – | 226,436,827 | 226,436,827 |
| 107,772 | 226,436,827 | 904,979,999 |
| – | – | 38,907,918 |
| – | – | 4,723,303 |
| 799 | 2,002,443 | 19,702,769 |
| 799 | 2,002,443 | 63,333,990 |
| 108,571 | 228,439,270 | 968,313,989 |
| 64,818 | 6,325,361 | (911,374,740) |
| 4,899 | 386,355,370 | 12,097,595,557 |
| $ 69,717 | $ 392,680,731 | $ 11,186,220,817 |

# Notes to Financial Statements
# June 30, 2008

**1. Summary of Significant Accounting Policies**

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

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

**Employer Contributions Receivable** SERS recognizes long-term receivables from employers whose contributions are deducted from the money paid to them through the School Foundation Program, administered by the Ohio Department of Education. Employer contributions for fiscal year 2008 will be received by the end of calendar year 2008; the surcharge owed for fiscal year 2008 will be received by the end of calendar year 2009.

**Health Care Benefits Incurred and Unpaid** Amounts accrued for health care benefits payable for recipients less than age 65 and for all prescription drug payments in the Health Care Fund are based upon estimates that have been developed from prior claims experience.

**Allocation of Expenses to Plans** Direct expenses are charged to the plan for which they are incurred. All indirect expenses are paid by the Pension Trust Fund and are reimbursed by the Medicare B, Death Benefit, and Health Care funds, in proportion to their use of the assets.

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

Investments are reported at fair value. Fair value is the amount that a plan can reasonably expect to receive for an investment in a current sale between a willing buyer and a willing seller. Fixed income securities, REITs, derivatives (with the exception of swaps), and common and preferred stocks are valued based on published market prices and quotations from national security exchanges and securities pricing services. Swap contracts are valued at fair value as determined by the manager. International stocks are then adjusted to reflect the current exchange rate of the underlying currency. Short-term securities are valued at amortized cost, which approximates fair value. Investments for which no national exchanges or pricing services exist, such as private equity assets, are valued at fair value by the respective manager. Real estate may be valued by the manager or independent appraisers. SERS performs due diligence reviews of the investment pricing, process, and infrastructure of these assets to assure that the asset values provided by the managers are reasonable.

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

The monies held by the Pension Trust, Medicare B, Death Benefit, and Health Care funds are pooled for the purpose of the investment of those plans. Each plan holds units of the investment pool, which are adjusted on a monthly basis. The value of one unit of the Pool on June 30, 2008 was $1,322.6515. The unit holdings and net value of each of the funds at the close of the fiscal year were:

| | Units | Value |
|---|---|---|
| Pension Trust Fund | 7,893,848.226 | $10,440,810,267 |
| Medicare B Fund | 89,323.646 | 118,144,055 |
| Death Benefits Fund | 17,127.189 | 22,653,302 |
| Health Care Fund | 199,870.829 | 264,359,453 |
| Total | 8,200,169.890 | $10,845,967,077 |

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

| Description | Estimated Lives (years) |
|---|---|
| Furniture, equipment, and software | 3-7 |
| Building and improvements | 40 |

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

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

**RESERVE ACCOUNT BALANCES AS OF JUNE 30, 2008**

| | Pension Trust Fund | Medicare B Fund | Death Benefit Fund | QEBA Fund | Health Care Fund | **Reserve Account Totals** |
|---|---|---|---|---|---|---|
| Employees' Svgs Acct. | $ 2,496,011,873 | $ – | $ – | $ – | $ – | $ 2,496,011,873 |
| Employers' Trust Acct. | 1,532,164,670 | – | – | – | 392,680,731 | 1,924,845,401 |
| Annuity and Pension Reserve Acct. | 6,335,450,490 | 124,627,144 | 22,278,877 | 69,717 | – | 6,482,426,228 |
| Survivors' Benefit Acct. | 282,937,315 | – | – | – | – | 282,937,315 |
| Guarantee Acct. | – | – | – | – | – | – |
| Expense Acct. | – | – | – | – | – | – |
| **Fund Totals** | **$10,646,564,348** | **$124,627,144** | **$22,278,877** | **$69,717** | **$392,680,731** | **$11,186,220,817** |

### 2. Description of the System

**Organization** 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 and charter schools who are not required to possess a certificate in order to perform their duties.

Responsibility for the organization and administration of SERS is vested in the Retirement Board. As of June 30, 2008 it is comprised of nine members. Four of the nine Board members are elected by the general membership (those who contribute to SERS) and two are elected by retirees. Three members are appointed by the legislature, state treasurer, and governor, respectively.

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

**Pension Benefits** There are two sets of eligibility requirements for retirement depending on when the member began employment. Members hired before May 14, 2008, may retire from school employment if they have attained one of three combinations of age or service: age 60 and 5 years of service credit; age 55 and 25 years of service credit; or 30 years of service credit at any age. Members hired on or after May 14, 2008, are eligible for retirement benefits based upon age and service credit as follows: age 62 and 10 years of service credit; age 60 and 25 years of service credit; or age 55 and 30 years of service credit. A member's age is defined to be the actual age a person has reached on the day of retirement. The benefit is equal to 2.2% of the member's final average salary, or a minimum of $86, multiplied by the number of years of credited service. Members retiring with more than 30 years of service credit receive an increased benefit multiplier of 2.5% for each year of earned service in excess of 30 years. Death benefits of $1,000 are payable upon the death of a retiree to a 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.

**EMPLOYER AND EMPLOYEE MEMBERSHIP DATA** (as of June 30, 2008)

| | |
|---|---|
| **Employer Members** | |
| Local | 374 |
| City | 192 |
| Educational Service Center | 59 |
| Village | 49 |
| Higher Education | 15 |
| Vocational/Technical | 49 |
| Community Schools | 252 |
| Other | 8 |
| Total | 998 |
| **Employee Members and Retirees** | |
| Retirees and beneficiaries currently receiving benefits | 64,818 |
| Terminated employees entitled to but not yet receiving benefits | 11,257 |
| Total | 76,075 |
| **Active Employees** | |
| Vested active employees | 77,270 |
| Non-vested active employees | 47,100 |
| Total | 124,370 |

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

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

Retirees of any of the five state retirement systems must contribute to SERS if they are employed in a non-certificated position in the public or charter schools. These contributions are credited to a separate money purchase annuity payable at age 65 in either monthly payments (if the monthly amount is $25 or more) or in a lump sum. A refund of the member's contributions, without employer contributions or interest, is available for those who stop working before age 65.

**Health Care Benefits** ORC 3309.375 and 3309.69 permit SERS to offer health care benefit programs to retirees and beneficiaries. SERS' pension benefits are mandated by statute; however SERS reserves the right to change or discontinue any health plan or program. The health care program is funded through employer contributions, premium payments, Medicare Part D subsidy, and investment earnings.

SERS offers several types of health plans from various vendors, including HMO's, PPO's, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. As of January 1, 2008, retirees age 65 or older are covered by the Medicare Advantage program. Members retiring July 1, 1986 or later must have ten years of service credit to qualify for health care benefits. Health care premiums are based on years of service, Medicare eligibility, and retirement status. Retirees may qualify for a 25% reduction in premiums if their household income falls below federal poverty levels. Health care premiums paid by benefit recipients in fiscal year 2008 were $72.7 million.

The portion of the employer contribution not required to actuarially fund the pension plans (Pension Trust Fund, Medicare B Fund, and Death Benefit Fund) is available for the Health Care Fund. During fiscal year 2008, the amount of employer contributions directed to the Health Care Fund was 4.18% of covered payroll or $116.4 million. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2% of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2008, the minimum compensation level was established at $35,800. The surcharge accrued for fiscal year 2008 and included in employer additions on the Statement of Changes in Plan Net Assets is $42.0 million.



**3. Contributions**

The Ohio Revised Code requires contributions by active members and their employers, and sets the maximum rate of contributions. The Retirement Board establishes contribution rates within the allowable limits. The adequacy of employer contribution rates is determined annually by actuarial valuation using the entry age normal cost method. During fiscal year 2008, active members and their employers were required to contribute 10% and 14%, respectively, of active member payroll.

The Retirement Board, acting with the advice of the actuary, allocates the current employer contribution rate among four plans of the System. For fiscal year 2008, the allocation of the employer contribution rate to pension plan benefits was established as the rate necessary to cover normal cost. Of the 14% contribution rate paid by employers, 9.82% was allocated to the pension plans in the following rates:

| | |
|---|---|
| Pension Trust Fund | 9.13% |
| Medicare B Fund | .66% |
| Death Benefit Fund | .03% |

During fiscal year 2008, the remaining 4.18% of the 14% employer contribution rate was allocated to the Health Care Fund.

Employer and employee contributions were $394.2 million and $281.2 million, respectively, in 2008. The employee contribution amounts in the financial statements also include employee contributions for purchased service credit.

**4. Cash Deposits and Investments**

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

At June 30, 2008, the carrying amounts of SERS' operating and investment cash deposits totaled $82,024,676 and the corresponding bank balances totaled $30,549,551. Of the bank balances, the Federal Deposit Insurance Corporation insured $234,032. Also in accordance with the state statute, additional bank balances of $145,496 were collateralized at 102% with securities held in the name of SERS' pledging

**INVESTMENTS AND SHORT-TERM HOLDINGS**

| | Fair Value *(in thousands)* |
|---|---|
| Commercial Paper | $ 46,964 |
| Commingled - Bonds | 571,319 |
| Commingled - Equity | 9,189 |
| Commingled - Non-US Equity | 912,202 |
| Commingled Fixed - Other | 74,678 |
| Foreign Warrants, Rights & Vouchers | 26,533 |
| Mutual Fund - Money Market | 251,645 |
| Non-US Bonds | 170,606 |
| Non-US Common and Preferred | 2,403,440 |
| Private Equity | 662,106 |
| Private Real Estate | 1,076,250 |
| Real Estate Investment Trusts | 208,614 |
| US Agency | 368,358 |
| US Common & Preferred | 2,391,628 |
| US Corporate Bonds | 990,519 |
| US Government | 42,293 |
| Securities on Loan: | |
| Non-US Bonds | $ 1,182 |
| Non-US Common and Preferred | 71,776 |
| US Government | 67,172 |
| US Agency | 480,904 |
| US Corporate Bonds | 15,620 |
| US Common & Preferred | 133,912 |
| Total Investments Fair Value | $10,976,910 |
| Securities Lending Collateral Pool | $ 781,744 |

financial institutions. The remaining bank deposits of $30,170,023 were uninsured and uncollateralized.

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

**Credit Risk** Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. ORC 3309.15 and the Board's "Statement of Investment Policy" (adopted February 2008) direct that the funds of the System will be invested following the prudent person standard. This fiduciary standard dictates that the Board consider the probable safety of investments, avoid speculative investments, and invest as persons of prudence, discretion, and intelligence would manage their own affairs. The Board accomplishes this through a combination of internal and external investment professionals.

**Concentration of Credit Risk** Concentration of credit risk is the risk of loss attributed to the magnitude of a plan's investment in a single issuer. The Retirement Board has the responsibility to invest the available funds of the System, in accordance with the applicable state law and the guidelines set forth by the Board. SERS does not hold investments in any one organization representing five percent or more of plan net assets.

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

At June 30, 2008, SERS holds interest-only strips that had a total fair value of $388,268. These securities are based on cash flows from interest payments on underlying mortgages. Therefore, they are sensitive to prepayments by mortgagees, which may result from a decline in interest rates. SERS also holds principal-only strips that had a total fair value of $1,000,152. These principal-only strips are sensitive to interest rate increases that may result in decreasing mortgage prepayments, thus increasing the average maturity of this investment.

**FAIR VALUE SUBJECT TO CREDIT RISK**

| | Quality Rating | *(in thousands)* |
|---|---|---|
| US Corporate Obligations | AAA | $ 315,784 |
| | AA | 93,368 |
| | A | 159,811 |
| | BBB | 238,404 |
| | BB | 109,167 |
| | B | 59,329 |
| | CCC | 24,047 |
| | Not rated | 6,229 |
| Total | | $ 1,006,139 |
| Foreign Obligations | AAA | 27,473 |
| | AA | 6,193 |
| | A | 49,436 |
| | BBB | 64,579 |
| | BB | 3,548 |
| | B | 1,674 |
| | Not rated | 18,885 |
| Total | | $ 171,788 |
| Commingled - Bonds | AAA | 466,720 |
| | AA | 23,020 |
| | BBB | 28,307 |
| | B | 53,272 |
| Total | | $ 571,319 |
| US Agency | AAA | 849,262 |
| US Government | AAA | 109,465 |
| Commercial Paper | A-1 | 46,964 |
| Mutual Fund - Money Market | A-1 | 251,645 |
| **Total Debt Securities** | | **$ 3,006,582** |

**FAIR VALUE SUBJECT TO INTEREST RATE RISK**

| **Investment** | **Fair Value** *(in thousands)* | **Option Adjusted Duration** *(in years)* |
|---|---|---|
| US Agency | $ 849,262 | 3.76 |
| US Corporate Obligations | 1,006,139 | 3.86 |
| Commingled - Bonds | 571,319 | 4.01 |
| US Government | 109,465 | 5.15 |
| Foreign Obligations | 171,788 | 4.83 |
| Commercial Paper | 46,964 | 0.00 |
| Mutual Fund - Money Market | 251,645 | N/A* |
| **Total Debt Securities** | **$ 3,006,582** | **3.58** |

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

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

**FAIR VALUE SUBJECT TO FOREIGN CURRENCY RISK** *(in thousands)*

| Currency | Cash & Cash Equivalents | Fixed Income | Non-US Equities | Real Estate | Private Equity |
|---|---|---|---|---|---|
| Argentina Peso | $ 96 | $ 233 | $ – | $ – | $ – |
| Australian Dollar | (50,917) | – | 94,749 | – | – |
| Brazilian Real | (3,729) | 5,459 | 97,868 | – | – |
| British Pound Sterling | (246,996) | 7,679 | 368,581 | 27,951 | – |
| Bulgarian Lev | 199 | – | 2,696 | – | – |
| Canadian Dollar | (80,630) | – | 102,534 | – | – |
| Chilean Peso | 9 | – | 389 | – | – |
| Chinese Yuan | 36 | – | 1 | – | – |
| Czech Koruna | (1,349) | – | 20,160 | – | – |
| Danish Krone | (5,198) | – | 16,527 | – | – |
| Euro | (377,151) | 21,265 | 586,220 | 19,512 | 20,447 |
| Hong Kong Dollar | (27,548) | – | 108,452 | – | – |
| Hungarian Forint | (1,297) | (98) | 6,587 | – | – |
| Indian Rupee | 4 | – | 3,032 | – | – |
| Indonesian Rupiah | (967) | 1,012 | 8,331 | – | – |
| Israeli Shekel | 865 | – | 14,893 | – | – |
| Japanese Yen | (180,617) | – | 366,560 | – | – |
| Lithuanian Lats | 36 | – | – | – | – |
| Malaysian Ringgit | 6,173 | – | 11,497 | – | – |
| Mexican New Peso | 1,470 | – | 12,842 | – | – |
| New Taiwan Dollar | 2,085 | – | 24,965 | – | – |
| New Turkish Lira | 466 | – | 17,807 | – | – |
| New Zealand Dollar | (2,006) | – | 2,471 | – | – |
| Norwegian Krone | (10,158) | – | 18,916 | – | – |
| Pakistan Rupee | 1 | – | 9,615 | – | – |
| Philippines Peso | 16 | – | 1,555 | – | – |
| Polish New Zloty | (2,978) | – | 14,584 | – | – |
| Romanian Leu | 18 | – | 2,052 | – | – |
| Russian Rubel | 1 | – | 2,649 | – | – |
| Singapore Dollar | (14,419) | – | 24,460 | – | – |
| South African Rand | (165) | – | 39,560 | – | – |
| South Korean Won | 1 | – | 48,580 | – | – |
| Swedish Krona | (11,116) | – | 26,524 | – | – |
| Swiss Franc | (50,145) | – | 116,010 | – | – |
| Thailand Baht | 236 | – | 5,896 | – | – |
| Ukraine Hryvana | – | – | 2,345 | – | – |
| **Total** | **($1,055,674)** | **$35,550** | **$2,179,908** | **$47,463** | **$20,447** |

**Derivatives** Derivatives are generally defined as investment instruments whose cash flows or fair values are derived from the value of some other asset or index. SERS uses a variety of derivatives primarily to maximize yields and offset volatility due to interest rate and currency fluctuations. The System is exposed to various types of credit, market, and legal risks related to these investments. The investment staff continuously monitors these types of investments.

Foreign exchange forward currency contracts are legal agreements between two parties to purchase and sell a foreign currency, for a price specified at the contract date, with delivery and settlement in the future. SERS enters into these contracts to hedge the foreign currency movements of assets held in the underlying funds. The contracts do not subject SERS to risk due to exchange rate movements since gains and losses on the contracts offset gains and losses on the transactions being hedged. SERS could be at risk for replacing these contracts at current market rates, should the counterparty default. SERS seeks to control this risk through contracting only with counterparties who meet credit guidelines.

A futures contract is a contract to buy or sell units of an index or financial instrument on a specified future date at a price agreed upon when the contract is originated. SERS uses futures contracts in an effort to obtain an equity return for the entire equity allocation. The System also uses equity and fixed income futures during the fiscal year to rebalance its asset allocation. Only the most liquid futures are used by SERS to directly hedge the temporary and transactional cash held in equity portfolios and to rebalance asset allocations between asset classes. The maximum risk from the purchase of a futures contract (long position) is the contract value. The risk from the sales of futures contracts (short positions) depends upon the amount that the contract increases in value.

**FORWARD CONTRACTS**

| | **Notional Value** *(in thousands)* |
|---|---|
| Forward Currency Contract Payables | $ (2,319,328) |
| Forward Currency Contract Receivables | 2,318,113 |
| Fixed Income Contracts | (25,882) |

**SWAP CONTRACTS**

| **Contract Type** | **Notional Value** *(in thousands)* |
|---|---|
| Credit Default | $ 330,746 |
| Interest Rate | 825,588 |
| Total Return | 7,906 |

Options give buyers the right, but not the obligation, to buy or sell an asset at a predetermined strike price over a specified period. The option premium is usually a small percentage of the underlying asset's value. When writing an option, SERS receives a premium upfront and bears the risk of an unfavorable change in the price of the underlying asset during the option's life. When SERS purchases an option, it pays a premium to a counterparty who bears the risk of an unfavorable change in the price of the underlying asset during the option's life.

**FUTURES CONTRACTS**

| **Contract Type** | **Expiration Date** | **Net Long/ Short** | **Notional Value** *(in thousands)* |
|---|---|---|---|
| 30-Day Federal Funds | Nov 08 | Long | $ 72,851 |
| 90-Day Eurodollar | Sep 08, Dec 08, Mar 09, Jun 09, Sep 09, Dec 09, Jun 11 | Short | (67,248) |
| US Treasury 2-year Note | Sep 08 | Long | 271,607 |
| US Treasury 5-year Note | Sep 08 | Short | (55,941) |
| US Treasury 10-year Note | Sep 08 | Short | (79,176) |
| US Treasury 30-year Bond | Sep 08 | Long | 127,847 |
| CAC 40 Euro Index | Jul 08 | Long | 4,901 |
| DAX Index | Sep 08 | Long | 4,339 |
| DJ Euro Stoxx 50 Index | Sep 08 | Long | 13,047 |
| E-mini S&P 500 Index | Sep 08 | Long | 7,558 |
| FTSE 100 Index | Sep 08 | Long | 11,802 |
| Hang Seng Index | Jul 08 | Long | 1,418 |
| IBEX 35 Index | Jul 08 | Long | 1,883 |
| Mini-Russell 2000 Index | Sep 08 | Long | 14,387 |
| Russell 1000 Index | Sep 08 | Long | 7,395 |
| S&P 500 Index | Sep 08 | Long | 196,329 |
| S&P/MIB Index | Sep 08 | Long | 1,870 |
| S&P/TSE 60 Index | Sep 08 | Long | 5,293 |
| SPI 200 Index | Sep 08 | Long | 3,488 |
| TOPIX Index | Sep 08 | Long | 11,319 |

**OPTIONS CONTRACTS**

| **Contract Type** | **Number of Contracts** | **Notional Value** *(in thousands)* |
|---|---|---|
| Fixed Income Written Call Options | 27 | $ 2,700 |
| Fixed Income Written Put Options | 43 | 4,300 |
| Currency Purchased Call Options | 12 | 12,000 |
| Currency Written Put Options | 61 | 61,000 |
| Index Purchased Call Options | 164 | 16,400 |
| Index Written Put Options | 469 | 46,900 |

Swaps represent an agreement between two or more parties to exchange a sequence of cash flows during a predetermined timeframe. SERS utilizes swaps for several different reasons: to manage interest rate fluctuations, default by a borrower, and to gain market exposure without having to actually own the asset.

**Securities Lending** SERS participates in two securities lending programs, as authorized by Board policy.

SERS has a securities lending program for the System's directly held equity and REIT investments using Goldman Sachs Agency Lending (GSAL) as a third-party lending agent. SERS also has a securities lending program for directly held fixed income investments using Wachovia as a third-party lending agent. Securities are loaned to independent brokers/dealers in exchange for cash collateral equal to approximately 102% of the market value of domestic securities on loan and 105% of the market value of international securities on loan, with a simultaneous agreement to return the collateral for the same securities in the future. SERS continues to recognize ownership of the loaned securities in the financial statements. At the same time, SERS records a liability for the collateral held by the System in the securities lending program. Total net proceeds from GSAL and Wachovia were $2,379,764 and $2,091,661, respectively, during fiscal year 2008.

At June 30, 2008, SERS had no credit risk exposure on the securities lending collateral because the collateral exceeded the value of the securities loaned. Securities on loan at year-end totaled $770,567,566 and total collateral held for those securities was $781,744,159. Under the terms of the lending agreement, SERS is fully indemnified against losses that might occur in the program due to the failure of a broker to return a security that was borrowed where the collateral is inadequate to replace the security. SERS is also indemnified should the borrower fail to pay distributions of earnings on securities lent.

Securities on loan can be recalled on demand by SERS or returned by the borrower at any time. There is no matching of the securities lent with the invested cash collateral. The lending agent reinvests the cash collateral in accordance with contractual investment guidelines that are designed to ensure the safety of principal and obtain a moderate rate of return. Earnings generated from the collateral investments, less the amount of rebates paid to the dealers, result in the gross earnings from lending activities, which is then split on a 85/15% and 83/17% basis with GSAL and Wachovia, respectively. SERS is at risk to contribute additional funds should the earnings from the invested SERS collateral not be sufficient to pay the negotiated dealer rebate. At June 30, 2008, the GSAL collateral portfolio had an average weighted maturity of 15 days. The Wachovia collateral portfolio had an average weighted maturity of 17 days. SERS receives pro-rated income from participation in the securities lending programs of several commingled funds. SERS has no direct responsibility for these programs and the collateral held by these securities lending programs is not held in SERS' name. Total net proceeds from these commingled funds were $439,923 during fiscal year 2008.

**Commitments** As of June 30, 2008, unfunded commitments related to the real estate and private equity investment portfolios totaled $1.3 billion.

**5. Capital Assets** (Non-Investment Assets)

**CAPITAL ASSETS ACTIVITY for the year ended June 30, 2008**

| **Cost:** | **Land** | **Office building & improvements** | **Furniture & equipment** | **Total Capital Assets** |
|---|---|---|---|---|
| Balances, June 30, 2007 | $3,315,670 | $52,128,983 | $8,292,364 | $63,737,017 |
| Additions | – | 267,367 | 538,363 | 805,730 |
| Disposals | – | – | (1,038,580) | (1,038,580) |
| Balances, June 30, 2008 | 3,315,670 | 52,396,350 | 7,792,147 | 63,504,167 |
| **Accumulated Depreciation:** | | | | |
| Balances, June 30, 2007 | – | 7,228,688 | 7,544,064 | 14,772,752 |
| Additions | – | 1,311,353 | 371,650 | 1,683,003 |
| Disposals | – | – | (1,035,830) | (1,035,830) |
| Balances, June 30, 2008 | – | 8,540,041 | 6,879,884 | 15,419,925 |
| **Net Capital Assets, June 30, 2008** | **$3,315,670** | **$43,856,309** | **$ 912,263** | **$48,084,242** |

**6. Pension Plan**

For its employees, SERS contributes to the Ohio Public Employees Retirement System (OPERS), a cost-sharing, multiple-employer public retirement system comprised of three separate plans: the Traditional Plan (defined benefit plan); the Combined Plan (combination of defined benefit and defined contribution plans); and the Member Directed Plan (defined contribution plan). OPERS provides retirement, disability, and survivor benefits for public employees of Ohio. OPERS issues a publicly available financial report for the plans. The report may be obtained by writing OPERS, 277 East Town Street, Columbus, OH 43215 or by visiting OPERS website www.OPERS.org/investments/cafr.shtml.

Employees covered by OPERS were required to contribute 9.0% of their salary to the plan and employers were required to contribute at an actuarially determined rate of 13.8% during the calendar year 2006. Effective January 1, 2007, the employee and employer contribution rates were increased to 9.5% and 13.85% of covered member payroll, respectively.



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As of January 1, 2008, the employee and employer rates were increased to the statutory maximum rates of 10.0% and 14.0% of covered member payroll, respectively.

OPERS also provides postemployment health care coverage to age and service retirees with 10 or more years of qualifying Ohio service credit and to primary survivor recipients of such retirees who are enrolled in either the Traditional or Combined Plans. Health care coverage for disability recipients is also available. The health care coverage provided by the retirement system is considered an Other Post-Employment Benefit (OPEB) as described in GASB Statement 12.

A portion of each employer's contribution to OPERS is set aside for the funding of postemployment health care. Currently, the portion of the employer rate set aside for postemployment health care is 7.0% of covered member payroll. In the first half of calendar year 2007, the rate was set at 5.0% of member covered payroll, and was increased to 6.0% during the second half. During 2006, the rate was 4.5% of member covered payroll.

The annual required pension and health care contributions for SERS' employees for the current year and the two preceding years are shown in the chart to the right.

**ANNUAL REQUIRED PENSION AND HEALTH CARE CONTRIBUTIONS**

| | Pension | | Health Care | |
|---|---|---|---|---|
| Year Ended June 30 | Annual Required Contribution | Percent Contributed | Annual Required Contribution | Percent Contributed |
| 2008 | $780,230 | 100% | $679,803 | 100% |
| 2007 | 907,810 | 100 | 473,640 | 100 |
| 2006 | 904,275 | 100 | 406,351 | 100 |

**7. Compensated Absences**

As of June 30, 2008 and 2007, $1,521,659, and $1,447,653, respectively, were accrued for unused vacation and sick leave for the System's employees. The corresponding long-term portion of these liabilities is estimated at $696,937 and $732,326. The net increase of $74,006 from June 30, 2007 included increases of $968,155 and decreases of $894,149. Employees who retire or resign are entitled to full compensation for all earned unused vacation. Unused sick leave pay is forfeited upon termination. However, employees who retire, become disabled, or die after five years of service are entitled to receive payment for a percentage of unused sick leave.

**8. Self-insured Health Care for Employees**

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

**9. Federal Income Tax Status**

The SERS Pension Trust Fund is considered a qualified plan under Section 401(a) of the Internal Revenue Code (IRC) and is therefore exempt from federal income taxes. The Medicare B Fund is established pursuant to IRC Section 401(h). The Death Benefit Fund is an insurance fund and is in compliance with IRC 101(a). The QEBA Fund is a qualified entity, created in accordance with IRS 415(m). The Health Care Fund is structured to meet the requirements of IRC Section 105(e).

**10. Risk Management**

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

**11. Contingent Liabilities**

On February 1, 2006, a Petition for Damages (*Timothy Ivan Usry et al. v. Baha Towers Limited Partnership et al)* was filed against multiple defendants, including the SERS Retirement Board, in the Civil District Court for the Parish of Orleans, State of Louisiana. Timothy Usry was employed by MCI from 1991 through 2004, and throughout his employment with MCI, he worked on the premises of Plaza Tower in New Orleans. SERS owned Plaza Tower from 1987 through September 1993. Mr. Usry claimed that during his employment in Plaza Tower he was exposed to high levels of toxic substances, including asbestos and mold, and that as a result of this exposure he contracted mesothelioma. SERS filed its answer on May 26, 2006; discovery began November 2006 and is ongoing.

SERS is also a defendant in various other cases relating to claims concerning individual benefits and accounts (denial of disability benefits or domestic relations suits to determine spousal interests). While the final outcome of these lawsuits cannot be determined at this time, management is of the opinion that the liability, if any, for these legal actions will not have a material adverse effect on SERS' financial position.

**12. Funded Status and Funding Progress**

The funded status of the Pension Trust, Medicare B, Death Benefit, and Health Care funds as of June 30, 2008, the most recent actuarial valuation date is as follows:

**FUNDED STATE OF THE PENSION, DEATH BENEFIT, MEDICARE B, AND HEALTH CARE FUNDS** *(in millions)*

| Fund | 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 |
|---|---|---|---|---|---|---|
| Pension and Death Benefit | $13,704 | $11,241 | $2,463 | 82.0% | $2,873 | 85.7% |
| Medicare B | 358 | 131 | 227 | 36.6 | 2,873 | 7.9 |
| Health Care | 4,859 | 393 | 4,466 | 8.1 | 2,652 | 168.4 |

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include trends and assumptions about future employment, mortality, and health care costs. Actuarially determined amounts are subject to continual review or modification as actual results are compared with past expectations and new estimates are made about the future. The *Schedules of Funding Progress* present multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. These schedules are presented in the *Required Supplementary Information* section.

The accompanying *Schedules of Employer Contributions* present trend information about the amounts contributed to the plan by employers in comparison to the Actuarial Required Contributions (ARC). The ARC is actuarially determined using the parameters of GASB Statement 43 and the assumptions adopted by the Retirement Board. The ARC represents a projected rate (cost) required on an ongoing basis to cover normal cost for each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

As mentioned previously, qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The current reimbursement is $45.50. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. Several of the key methods and assumptions used in the latest actuarial valuation are presented on the next page.

**KEY METHODS AND ASSUMPTIONS USED IN ACTUARIAL VALUATIONS**

| Actuarial Information | Pension & Death Benefit | Medicare B | Health Care |
|---|---|---|---|
| Valuation date | June 30, 2008 | June 30, 2008 | June 30, 2008 |
| Actuarial cost method | Entry age normal | Entry age normal | Entry age normal |
| Amortization method | Level percent closed | Level percent closed | Level percent open |
| Remaining amortization period | 28 years | 28 years | 30 years |
| Assets valuation method | 4-year smoothed market | 4-year smoothed market | Market value of assets |
| **Actuarial Assumptions:** | | | |
| Investment rate of return compounded annually | 8.0% | 8.0% | 5.25% |
| Health Care cost trend rate | N/A | N/A | 11% initial, 5.5% ultimate |

As disclosed previously, health care benefits are not guaranteed and are subject to change at any time. The health care valuation and projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of the benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

**13. Declines in Investment Values**

During calendar year 2008, financial markets as a whole have incurred significant declines in values. As of December 8, 2008, the Plan's investment portfolio has also incurred a significant decline in the values reported in the accompanying financial statements. However, because the values of individual investments fluctuate with market conditions, the amount of investment losses that the Plan will recognize in its future financial statements, if any, cannot be determined.

## Required Supplementary Information

**Schedule of Funding Progress** *(in millions)*
**Pension and Postretirement Death Benefits, combined**

| Valuation Date June 30 | 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 |
|---|---|---|---|---|---|---|
| 2008 | $13,704 | $11,241 | $2,463 | 82.0% | $2,873 | 85.7% |
| 2007 | 13,004 | 10,513 | 2,562^ | 80.8 | 2,603 | 98.4 |
| 2006 | 12,327 | 9,423 | 2,974^ | 76.4 | 2,553 | 116.5 |
| 2005 | 11,659 | 8,780 | 2,948^ | 75.3 | 2,453 | 120.2 |
| 2004 | 10,953 | 8,550 | 2,403 | 78.1 | 2,394 | 100.4 |
| 2003(1) | 10,336 | 8,646 | 1,690 | 83.6 | 2,302 | 73.4 |

(1) After change in asset value
^ After change in calculation methods of health care assets, resulting in a $70 million future liability due to the Pension Trust Fund by the Health Care Fund

**Schedule of Funding Progress** *(in millions)*
**Medicare B**

| Valuation Date June 30 | 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 |
|---|---|---|---|---|---|---|
| 2008 | $358 | $131 | $227 | 36.6% | $2,873 | 7.9% |
| 2007 | 299 | 127 | 172^ | 42.5 | 2,603 | 6.6 |
| 2006 | 300 | 119 | 181^ | 39.7 | 2,553 | 7.1 |
| 2005 | 302 | 113 | 189^ | 37.4 | 2,453 | 7.7 |
| 2004 | 298 | 117 | 181 | 39.3 | 2,394 | 7.6 |
| 2003(1) | 298 | 126 | 172 | 42.3 | 2,302 | 7.5 |

(1) After change in asset value
^ After change in calculation methods of health care assets, resulting in a $70 million future liability due to the Pension Trust Fund by the Health Care Fund

**Schedule of Funding Progress** *(in millions)*
**Health Care**

| Valuation Date | 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 |
|---|---|---|---|---|---|---|
| 6/30/2008(1) | $4,859 | $393 | $4,466 | 8.1% | $2,652 | 168.4% |
| 1/1/2008 | 4,513 | 391 | 4,122^ | 8.7 | 2,648 | 155.7 |
| 1/1/2007 | 4,307 | 340 | 3,967^ | 7.9 | 2,598 | 152.7 |

(1) Valuation date changed from January 1st to June 30th.
^ After change in calculation methods of health care assets, resulting in a $70 million future liability due to the Pension Trust Fund by the Health Care Fund

See notes to required supplementary information on page 37.

**Schedule of Employer Contributions**
**Pension Benefits and Postretirement Death Benefit**

| Year ended June 30 | Actuarial Annual Required Contributions | Percentage Contributed |
|---|---|---|
| 2008 | $243,150,199 | 100% |
| 2007 | 260,779,627 | 90(1) |
| 2006 | 272,358,393(2) | 87(1) |
| 2005 | 239,089,392 | 100 |
| 2004 | 195,852,937 | 100 |
| 2003 | 165,929,757 | 100 |

**Schedule of Employer Contributions**
**Medicare B**

| Year ended June 30 | Actuarial Annual Required Contributions | Percentage Contributed |
|---|---|---|
| 2008 | $17,519,556 | 100% |
| 2007 | 17,729,746 | 104 |
| 2006 | 21,677,505(2) | 95(1) |
| 2005 | 16,956,695 | 100 |
| 2004 | 16,340,531 | 100 |
| 2003 | 15,306,355 | 100 |

**Schedule of Employer Contributions and Other Contributing Entities**
**Postemployment Health Care**

| Year ended June 30 | Actuarial Annual Required Contributions | Percentage Contributed by Employers# | Federal Subsidy | Percentage Contributed |
|---|---|---|---|---|
| 2008 | $307,874,094 | 51.4% | $21,953,659 | 58.6% |
| 2007 | 299,379,524 | 57.1 | 20,202,965 | 63.8 |

(1) The percentage contributed is less than 100% due to contributions made toward the health care adjustment.
(2) ARC decreased due to the adoption of the new actuarial assumptions retroactive to July 1, 2005.
\# The percent contributed by employers displays the percentage of the annual retirement contributions that was billed to employers (and paid) each year.

## Note to Required Supplementary Schedules

**Description of Schedule of Funding Progress**

Each time a new benefit is added that 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 valuations at June 30, 2008.



Additional information as of the latest Pension Trust Fund and Death Benefit Fund actuarial valuation follows:

| | |
|---|---|
| Actuarial cost method: | Entry age normal |
| Amortization method: | Level percent closed |
| Remaining amortization period: | 28 years |
| Asset valuation method: | 4-year smoothed market, with a limit of actuarial value of assets to a minimum of 80% and a maximum of 120% of the market value of assets |
| Actuarial assumptions: | Investment rate of return^ - 8.00%<br>Projected salary increases* - 4.50% to 24.75%<br>Cost-of-living adjustments - 3.00% |

Additional information as of the latest Medicare B Fund actuarial valuation follows:

| | |
|---|---|
| Actuarial cost method: | Entry age normal |
| Amortization method: | Level percent closed |
| Remaining amortization period: | 28 years |
| Asset valuation method: | 4-year smoothed market, with a limit of actuarial value of assets to a minimum of 80% and a maximum of 120% of the market value of assets |
| Actuarial assumptions: | Investment rate of return^ - 8.00% |

Additional information as of the latest Health Care Fund actuarial valuation follows:

| | |
|---|---|
| Actuarial cost method: | Entry age normal |
| Amortization method: | Level percent open |
| Remaining amortization period: | 30 years |
| Asset valuation method: | Market value of assets |
| Actuarial assumptions: | Investment rate of return^ (Discount Rate) 5.25% compounded annually<br>Medical Trend Assumption 11% initially, decreasing to 5.5% by 2014, level thereafter. |

^ Includes price inflation at 3.50%
* Includes wage inflation at 4.00%

See accompanying independent auditors' report.

## Schedule of Administrative Expenses for the year ended June 30, 2008

| | General Expenses | Investment Related Expenses | Total |
|---|---|---|---|
| **Personnel Services** | | | |
| Salaries | $ 9,058,347 | $ 1,734,568 | $ 10,792,915 |
| Retirement Contributions | 1,220,725 | 239,307 | 1,460,032 |
| Insurance | 1,577,480 | 184,265 | 1,761,745 |
| Total Personnel Services | 11,856,552 | 2,158,140 | 14,014,692 |
| **Professional Services** | | | |
| Actuarial Advisors | 346,050 | – | 346,050 |
| Audit Services | 87,102 | – | 87,102 |
| Custodial Banking | 153,446 | – | 153,446 |
| Investment Related | – | 5,147,818 | 5,147,818 |
| Medical | 532,279 | – | 532,279 |
| Technical | 1,333,551 | 645,915 | 1,979,466 |
| Total Professional Services | 2,452,428 | 5,793,733 | 8,246,161 |
| **Communications** | | | |
| Postage | 669,750 | – | 669,750 |
| Telephone | 155,984 | – | 155,984 |
| Member / Employer Education | 52,484 | – | 52,484 |
| Printing and Publications | 298,809 | – | 298,809 |
| Total Communications | 1,177,027 | – | 1,177,027 |
| **Other Services** | | | |
| Computer Support Services | 754,667 | – | 754,667 |
| Office Equipment and Supplies | 181,435 | 4,238 | 185,673 |
| Training | 291,907 | 25,853 | 317,760 |
| Transportation and Travel | 170,179 | 147,917 | 318,096 |
| Memberships and Subscriptions | 83,017 | 22,021 | 105,038 |
| Property and Fiduciary Insurance | 360,514 | – | 360,514 |
| Facilities Expense | 562,487 | – | 562,487 |
| Administrative Banking Fees | 32,889 | – | 32,889 |
| Ohio Retirement Study Council | 34,380 | – | 34,380 |
| Miscellaneous | 44,982 | – | 44,982 |
| Total Other Services | 2,516,457 | 200,029 | 2,716,486 |
| Total Administrative Expenses before Depreciation | 18,002,464 | 8,151,902 | 26,154,366 |
| **Depreciation** | | | |
| Furniture & Equipment | 371,650 | – | 371,650 |
| Building | 1,328,655 | – | 1,328,655 |
| Total Depreciation | 1,700,305 | – | 1,700,305 |
| Total Administrative Expenses | $ 19,702,769 | $ 8,151,902 | $ 27,854,671 |

See accompanying independent auditors' report.

## Schedule of Investment Expenses for the year ended June 30, 2008

| Description of Expense | Net Assets Under Management | Direct Fees |
|---|---|---|
| US Equity | $ 2,875,005,133 | $ 7,172,053 |
| Non-US Equity | 3,270,200,206 | 19,483,495 |
| Private Equity | 638,163,305 | 16,693,892 |
| Fixed Income | 2,662,009,502 | 4,140,653 |
| Real Estate | 1,275,896,255 | 20,651,462 |
| Total Investment Management Fees | | 68,141,555 |
| Custody Service Fees | | 2,109,925 |
| Master Recordkeeper Fees | | 903,713 |
| Investment Consulting and Performance/Analytics Fees | | 1,952,252 |
| Investment Administrative Expenses | | 3,186,012 |
| Total Other Investment Expenses (see page 38) | | 8,151,902 |
| Total Investment Expenses | | $ 76,293,457 |

## Schedule of Payments to Consultants

SERS paid the following non-investment related consulting fees in fiscal year 2008:

| | |
|---|---|
| Actuarial Advisors | $ 346,050 |
| Audit Services | 87,102 |
| Legal Counsel | 71,718 |
| Medical Consultant | 30,240 |
| Disability Exams | 502,039 |
| Information Technology Consultants | 969,439 |
| Health Care Consultants | 118,194 |
| Other Consultants | 327,646 |
| Total | $ 2,452,428 |

See accompanying independent auditors' report.

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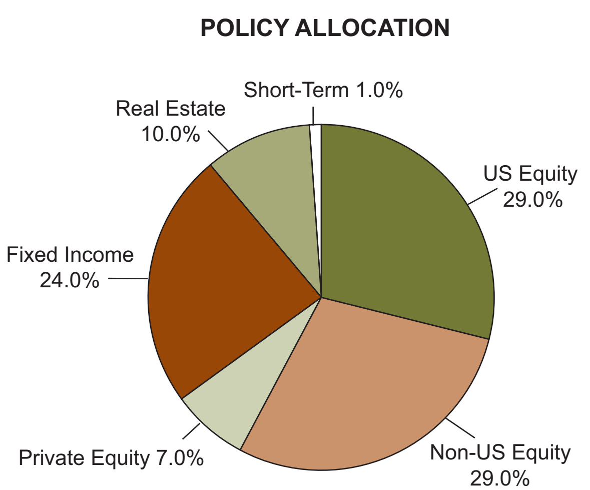
# INVESTMENT SECTION

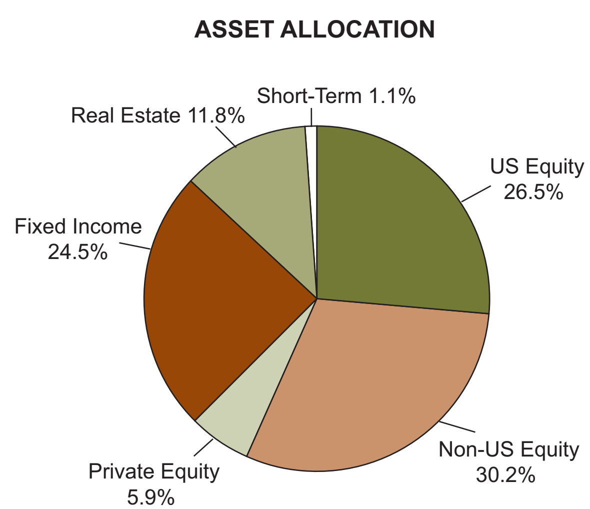
## Investment Summary as of June 30, 2008

| | Fair Value* | Actual | Target | Range |
|---|---|---|---|---|
| US Equity | $ 2,875,005,133 | 26.5% | 29.0% | 24% - 34% |
| Non-US Equity | 3,270,200,206 | 30.2 | 29.0 | 24 - 34 |
| Private Equity | 638,163,305 | 5.9 | 7.0 | 0 - 10 |
| Fixed Income | 2,662,009,502 | 24.5 | 24.0 | 19 - 29 |
| Real Estate | 1,275,896,255 | 11.8 | 10.0 | 5 - 15 |
| Short-Term | 119,577,119 | 1.1 | 1.0 | 0 - 2 |
| Net Portfolio Value | $10,840,851,520 | 100.0% | 100.0% | |

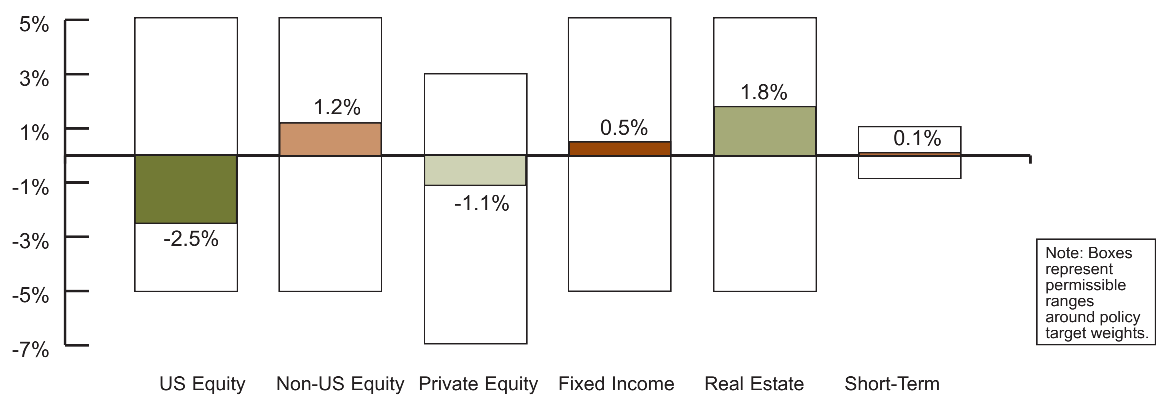
*See Reconciliation to Statement of Plan Net Assets on page 54.

## Asset Allocation – Total Fund as of June 30, 2008




## Asset Allocation vs. Policy



**School Employees Retirement System of Ohio**

300 EAST BROAD ST., SUITE 100 • COLUMBUS, OHIO 43215-3746 • (614) 222-5853
Toll-Free 866-280-7377 • www.ohsers.org

JAMES R. WINFREE
*Executive Director*

LISA J. MORRIS
*Deputy Executive Director*

December 6, 2008

Retirement Board, Members, and Retirees of the Retirement System:

On behalf of the SERS Investment Department, I respectfully submit the Investment Section of the Comprehensive Annual Financial Report for the year ended June 30, 2008. Information in this section was compiled by SERS' Investment Staff, Finance Department, and Mellon Analytical Solutions.

Fiscal year 2008 was a very difficult year for SERS' Investment portfolio. The US equity portfolio, Non-US equity portfolio, and Total Fund all had negative returns for the fiscal year. Alternatives had the strongest returns with private equity up 18.96% and real estate up 8.32%.

During the fiscal year, the Board approved:

- Hiring one US equity manager.
- Dismissing two US equity managers.
- Committing funds to eight private equity partnerships and three real estate funds.

Details about each asset class are included on the following pages.

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

Respectfully,

Robert G. Cowman
Director of Investments

## Investment Report

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

**INVESTMENT POLICY**

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

**INVESTMENT OBJECTIVES**

The primary objective of the investment portfolio is to achieve investment returns exceeding the return of our Policy Benchmark within prudent risk parameters. On June 30, 2008, SERS' policy portfolio and its corresponding benchmark were as follows:

| Asset Allocation | Benchmark |
|---|---|
| • 29% US Equities | Russell 3000 Index |
| • 29% Non-US Equities | MSCI-All Country World Ex-US Index 50% Hedged |
| • 7% Private Equity | S&P 500 Index + 3% (one quarter in arrears) |
| • 24% Fixed Income | Lehman Brothers Aggregate Bond Index |
| • 1% Short-Term | Citigroup 30-day US Treasury Bill Index |
| • 10% Real Estate | 80% NCREIF Property Index (one quarter in arrears) & 20% NAREIT Equity Index |

**INVESTMENT STRATEGIES**

**Asset Allocation** SERS' investment consultant, Summit Strategies Group, performed an asset liability study during calendar year 2006. Based on the results of that study and Summit's recommendation, SERS' Board adopted new asset allocation targets in February 2007. There were no additional changes to the asset allocation structure of the Fund during the 2008 fiscal year. SERS did hire a hedge fund consultant, Aksia Research and Management LLC, to assist the Board and Staff in constructing a hedge fund program and selecting managers.

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

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

**INVESTMENT PERFORMANCE**

**Long-Term Investment Performance** The negative return realized this fiscal year caused the ten-year performance to fall below SERS' actuarial rate of 8.0%. The three- and five-year returns of the Total Fund continue to exceed the actuarial rate. Total Fund returns for the current fiscal year trailed the Total Fund Benchmark, but returns for each of the longer periods continued to exceed the Benchmark returns.

The *Schedule of Investment Results* on the following page summarizes Fund performance gross-of-fees versus benchmark performance for the Total Fund and each asset class over selected periods. The schedule also reports the Total Fund performance net-of-fees.

**Fiscal Year 2008** The private equity and real estate portfolios had strong returns for the fiscal year, but were not strong enough to offset the negative US and Non-US equity returns. The Total Fund return was a negative 5.25% for the fiscal year versus a negative 4.61% return for its benchmark.

## Schedule of Investment Results for the years ended June 30 (Gross of Fees)

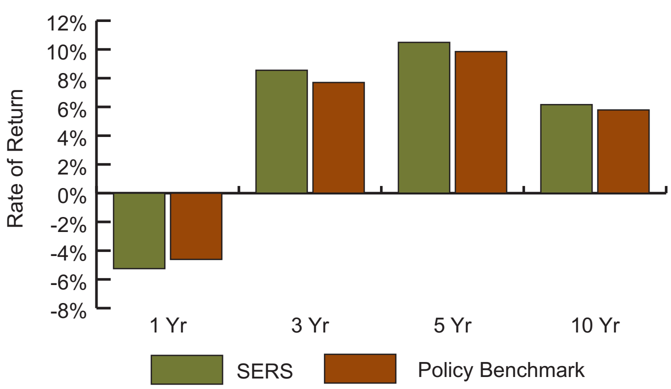
| | 2008 | 2007 | 2006 | 2005 | 2004 | Annualized Rates of Return 3 Years | 5 Years | 10 Years |
|---|---|---|---|---|---|---|---|---|
| **US Equity** | | | | | | | | |
| SERS (1)* | (15.1) % | 18.8 % | 10.8 % | 7.3 % | 21.4 % | 3.8 % | 7.8 % | 3.2 % |
| Russell 3000 Index | (12.7) | 20.1 | 9.6 | 8.1 | 20.5 | 4.7 | 8.4 | 3.5 |
| **Non-US Equity** | | | | | | | | |
| SERS | (9.8) | 34.3 | 30.4 | 19.3 | 27.6 | 16.5 | 19.2 | 7.5 |
| Custom Non-US Equity Benchmark (2)* | (10.2) | 29.6 | 27.8 | 16.9 | 27.8 | 14.1 | 17.3 | 6.6 |
| **Private Equity** | | | | | | | | |
| SERS (3)* | 19.0 | 22.5 | 23.2 | 7.7 | 8.5 | 21.6 | 16.0 | 10.0 |
| Custom Private Equity Benchmark (4)* | (2.1) | 14.8 | 14.7 | 9.7 | 38.1 | 8.9 | 14.3 | 6.3 |
| **Fixed Income** | | | | | | | | |
| SERS | 3.2 | 6.6 | 0.4 | 7.0 | 1.3 | 3.4 | 3.7 | 5.8 |
| Lehman Brothers Aggregate Bond Index | 7.1 | 6.1 | (0.8) | 6.8 | 0.3 | 4.1 | 3.9 | 5.7 |
| **Real Estate** | | | | | | | | |
| SERS (5)* | 8.3 | 14.3 | 20.7 | 22.4 | 13.2 | 14.3 | 15.7 | 11.6 |
| Custom Real Estate Benchmark (6)* | 7.8 | 16.0 | 20.1 | 19.2 | 13.2 | 14.5 | 15.2 | 12.6 |
| **Short-Term** | | | | | | | | |
| SERS (7)* | 4.4 | 5.5 | 4.4 | 2.4 | 1.0 | 4.8 | 3.5 | 4.1 |
| Citigroup 30 Day Treasury Bill Index | 3.0 | 5.0 | 4.0 | 2.0 | 0.9 | 4.0 | 3.0 | 3.3 |
| **Total Fund** (Gross of Fees) | | | | | | | | |
| SERS (8)* | (5.3) | 19.3 | 13.2 | 10.5 | 16.5 | 8.6 | 10.5 | 6.2 |
| Policy Benchmark (9)* | (4.6) | 18.0 | 11.0 | 10.3 | 16.1 | 7.7 | 9.9 | 5.8 |
| **Total Fund** (Net of Fees) | | | | | | | | |
| SERS (8)* | (5.7) | 18.7 | 12.7 | 10.1 | 16.2 | 8.0 | 10.0 | 5.8 |
| Policy Benchmark (9)* | (4.6) | 18.0 | 11.0 | 10.3 | 16.1 | 7.7 | 9.9 | 5.8 |

Source: Mellon Analytical Solutions

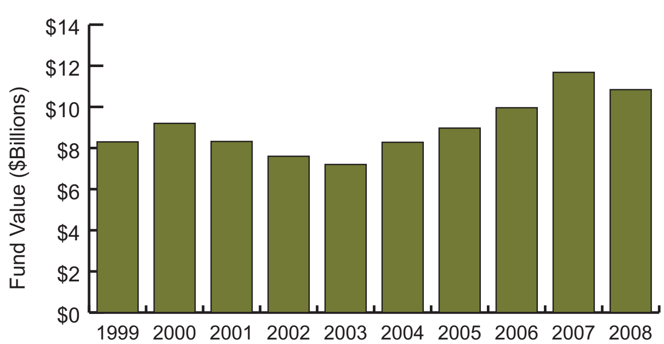
Investment results provided by Mellon Analytical Solutions are based upon a time-weighted rate of return methodology. The returns do not reflect the private equity, real estate, or commingled fund quarter-in-arrears or fair market value adjustments made to the financial statements.

*See footnotes to schedule on page 54.

## Total Fund Rates of Return vs Policy Benchmark (Gross of Fees)




## Total Fund at Fair Value



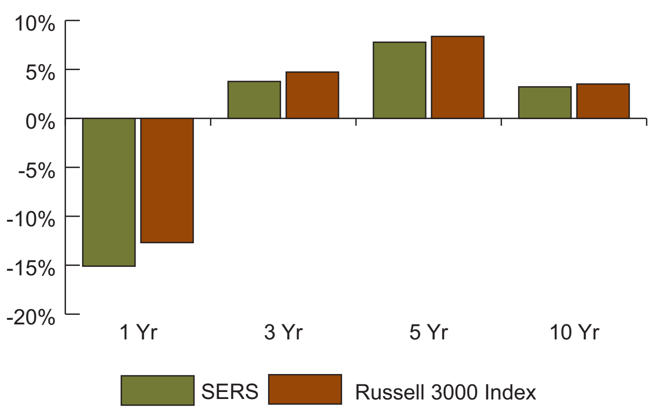
## US Equity

For the fiscal year ended June 30, 2008, SERS' US Equity portfolio declined 15.1% versus 12.7% for its benchmark, the Russell 3000 Index. Fiscal 2008 performance pulled the longer-term average US equity performance down. As a result, SERS' US Equity portfolio has underperformed its benchmark on an annualized basis over the past three years by 0.9%, over the past five years by 0.6%, and over the past ten years by 0.3%.

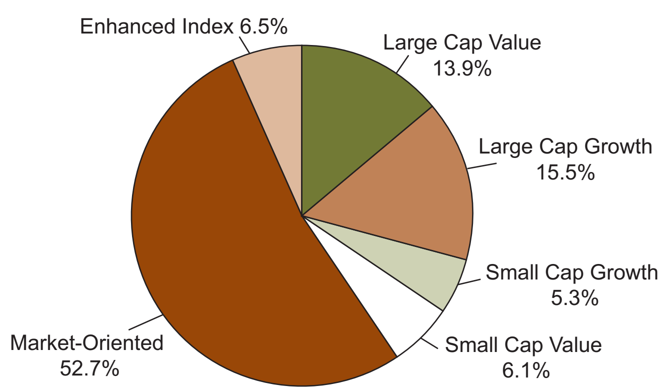
As the subprime mortgage problems accelerated during the fiscal year, US equity securities suffered. Rising energy prices and falling residential real estate values left the American consumer in a precarious state. Financial institutions were forced to take huge write downs and several firms did not survive (Bear Stearns, IndyMac, etc.). Larger capitalization stocks outperformed smaller capitalization stocks. The Russell 1000 Index (which represents large and mid cap stocks) fell 12.4%, while the Russell 2000 Index (which represents small cap stocks) fell 16.2%. Growth significantly outperformed value across all capitalizations. The Russell 1000 Growth Index fell only 6.0% compared to the Russell 1000 Value Index, which decreased 18.8%. The Russell 2000 Growth Index fell 10.8%, but the Russell 2000 Value Index plummeted 21.6%.

Upon recommendation from Staff and Summit Strategies, the Board approved terminating two managers and hiring one new manager during the fiscal year. One micro cap manager was terminated and replaced by another micro cap manager; and one enhanced index manager was also terminated during the year.

**US EQUITY RETURNS**




**US EQUITY ALLOCATIONS**




**LARGEST INDIVIDUAL US EQUITY HOLDINGS AS OF JUNE 30, 2008**

| | Description | Shares | Market Price | Fair Value |
|---|---|---|---|---|
| 1 | Exxon Mobil Corp. | 844,561 | $ 88.13 | $ 74,431,161 |
| 2 | Proctor & Gamble Co. | 659,359 | 60.81 | 40,095,621 |
| 3 | General Electric Co. | 1,459,889 | 26.69 | 38,964,437 |
| 4 | Chevron Corp. | 359,752 | 99.13 | 35,662,216 |
| 5 | Microsoft Corp. | 1,262,924 | 27.51 | 34,743,039 |
| 6 | AT&T, Inc. | 986,770 | 33.69 | 33,244,281 |
| 7 | Apple, Inc. | 189,759 | 167.44 | 31,773,247 |
| 8 | Google, Inc. | 59,467 | 526.42 | 31,304,618 |
| 9 | ConocoPhillips | 321,870 | 94.39 | 30,381,309 |
| 10 | Qualcomm, Inc. | 608,715 | 44.37 | 27,008,685 |

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

## Non-US Equity

International equity markets endured a very turbulent year. The downturn that started the fiscal year in the overseas markets continued its negative trend into the first half of 2008 and volatility not seen since 2003 plagued markets across the world. Non-US equity markets ended the year with the MSCI EAFE Index posting a negative 10.2% return, substantiating claims of a broadening global economic slowdown. Emerging markets fared comparatively well against the developed international markets posting performance at a positive 4.9% by the end of June, but this return pales in contrast to the 23.5% these markets were able to deliver just one year ago.

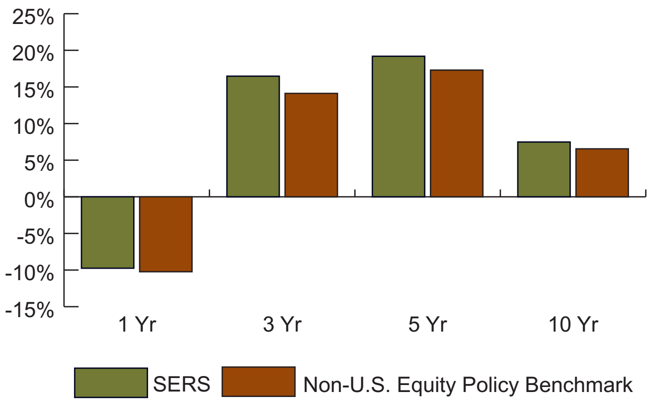
Like the US, SERS' Non-US equity portfolio suffered from market pressures. For the fiscal year ended June 30, 2008, SERS' Non-US equity portfolio posted a negative 9.8% return, outperforming its policy benchmark (MSCI All Country World Excluding the US Index with developed countries 50% hedged) by 0.5%. On an annualized basis, the SERS Non-US equity portfolio outperformed its benchmark by 2.4% over the past three years, by 1.9% over the past five years, and by 0.9% over the past ten years.

Volatility plagued international equity as the markets retreated in the wake of a slowing US economy, financial sector weaknesses, rising inflation, and soaring oil prices. A weak US Dollar, combined with global demand for food and energy, fueled commodity prices to record levels. Investor sentiment grew increasingly bearish as investors worried that rising costs would erode earnings.

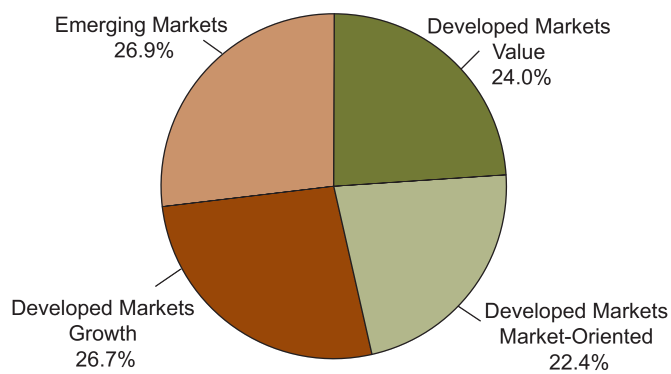
Despite high commodity prices, a global credit crunch and the sustained downturn in US growth, emerging markets posted relatively strong performance returns at year end albeit gains from the first half of the year were largely given back in the second half. Europe's economies faced considerable headwinds as a result of high energy prices, a strong euro, and an uncertain economic outlook, all fueled primarily by inflationary concerns. What began as an encouraging recovery early in the fourth quarter of the fiscal year ended in a sharp decline by year end, suggesting further volatility going forward.



**NON-US EQUITY RETURNS**




**NON-US EQUITY ALLOCATIONS**




**LARGEST INDIVIDUAL NON-US EQUITY HOLDINGS AS OF JUNE 30, 2008**

| | Description | Country | Shares* | Market Price | Fair Value |
|---|---|---|---|---|---|
| 1 | BP PLC | United Kingdom | 3,394,873 | $ 11.61 | $ 39,406,157 |
| 2 | Total SA | France | 320,318 | 85.39 | 27,353,490 |
| 3 | Novartis AG | Switzerland | 494,285 | 55.22 | 27,295,827 |
| 4 | Gazprom OAO ADR | Russian Federation | 467,585 | 57.90 | 27,073,172 |
| 5 | LUKOIL ADR | Russian Federation | 274,215 | 98.35 | 26,969,270 |
| 6 | Royal Dutch Shell PLC | Netherlands | 633,265 | 41.18 | 26,075,952 |
| 7 | Vodafone Group PLC | United Kingdom | 8,662,796 | 2.97 | 25,713,853 |
| 8 | E. ON AG | Germany | 124,393 | 201.91 | 25,115,876 |
| 9 | Nestle SA | Switzerland | 442,766 | 52.30 | 23,154,694 |
| 10 | GlaxoSmithKline PLC | United Kingdom | 995,567 | 22.15 | 22,052,173 |

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

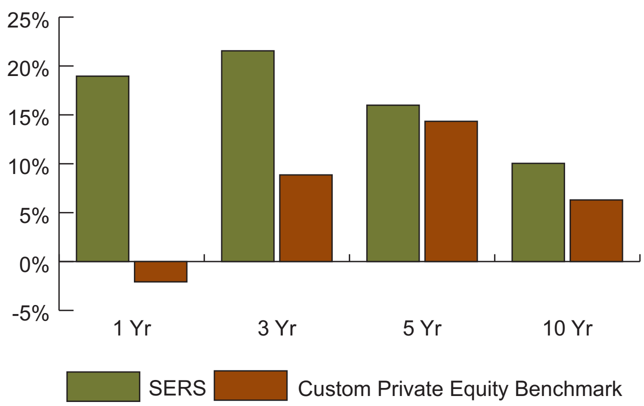
## Global Private Equity

Global private equity consists of investments in venture capital limited partnerships, buyout limited partnerships, special situations limited partnerships, and other "non-public" investments in the US and outside the US. Private equity also includes investments in fund-of-funds, which invest in a diversified portfolio of venture capital and buyout limited partnerships, as well as additional public and non-public investments.

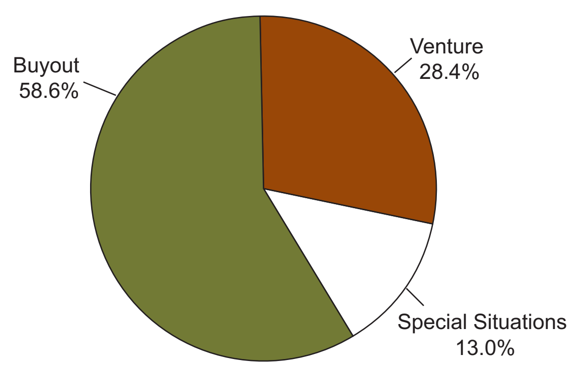
As of June 30, 2008, the market value of SERS' private equity portfolio was $638.2 million, or 5.9% of the Total Fund. Unfunded commitments to private equity partnerships totaled $891.2 million at fiscal year end. Over the past fiscal year, SERS closed on commitments to eight private equity partnerships totaling $345 million. Approximately, $105 million was committed to US buyout funds, $40 million was committed to a European buyout fund, $75 million was committed to a diversified fund that will make buyout and venture capital investments on a global basis, $75 million was committed to two niche focused fund of funds, and $50 million was committed to an energy fund. In February 2007, SERS' Board approved an increase in the allocation target to global private equity from 3% to 7%, and as a result the private equity portfolio will continue to grow for the next few years.

During the fiscal year, SERS' private equity portfolio had an investment return of 19.0% versus the custom benchmark return of a negative 2.1%. For the three-, five- and ten-year periods, the private equity portfolio returned 21.6%, 16.0%, and 10.0% respectively, beating the custom benchmark in each of the periods. Private equity returns are reported one quarter in arrears.

GLOBAL PRIVATE EQUITY RETURNS




ALLOCATION BY STRATEGY




**LARGEST INDIVIDUAL GLOBAL PRIVATE EQUITY HOLDINGS AS OF JUNE 30, 2008**

| | Description | Fair Value |
|---|---|---|
| 1 | GS Distressed Opportunities Fund III, LP | $ 37,723,289 |
| 2 | Thomas H. Lee Equity Fund VI, LP | 37,647,442 |
| 3 | Horsley Bridge International Fund III, LP | 31,116,046 |
| 4 | GS Private Equity Partners 2002-Manager Fund, LP | 28,213,530 |
| 5 | Horsley Bridge VII, LP | 28,091,262 |
| 6 | J.P. Morgan European Pooled Corporate Finance Institutional Investors Fund II, LLC | 26,417,180 |
| 7 | Horsley Bridge VIII, LP | 23,565,585 |
| 8 | Kohlberg Investors V, LP | 23,306,499 |
| 9 | Cinven, The Fourth Fund, LP | 20,447,327 |
| 10 | Horsley Bridge Institutional Fund II, LP | 20,199,406 |

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

## Global Fixed Income

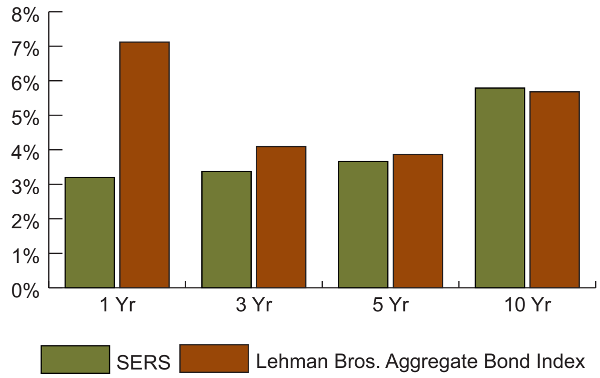
SERS' fixed income portfolio is comprised principally of low-risk, high-quality debt securities. The portfolio is managed by a diverse group of top-tier active bond managers employing proven investment strategies to help SERS meet its goals and objectives.

For the fiscal year ended June 30, 2008, SERS' fixed income portfolio underperformed the benchmark Lehman Brothers Aggregate Bond Index by 392 basis points, returning 3.2% against the index return of 7.1%. Returns suffered as SERS' fixed income managers underweighted government bonds (treasuries and agencies) and overweighted corporate bonds and mortgage-backed securities. As the subprime crisis unfolded, a flight to quality began increasing the market value of US Treasuries. All other fixed income market sector returns lagged US Treasuries with financials suffering the most. Corporates and mortgages performed better during the fourth quarter after Bear Stearns was rescued. The portfolio maintained an average Moody quality rating of AA2 during the fiscal year.

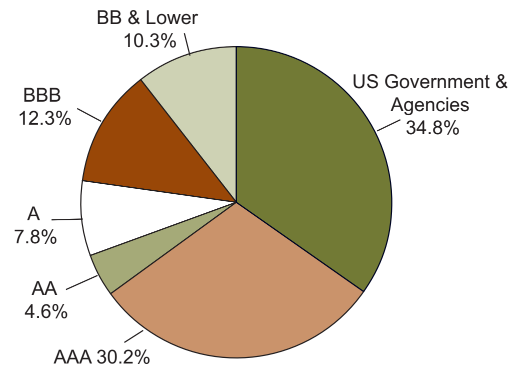
The Federal Reserve cut the federal funds rate seven times to 2.0% during this fiscal year, responding to the credit crisis and the weakening economy. The yield curve steepened during the year with the spread between three-month and 30-year treasuries at 279 basis points by year end. SERS' investment managers collectively increased duration from the prior fiscal year to 4.61 years. High yield underperformed the Lehman Aggregate by 9.4% and emerging market debt underperformed by 2.2%.

On June 1, 2008, SERS made its first investment in hedge funds, investing $115 million in eight diverse funds from the fixed income allocation. This investment, along with subsequent investments in fiscal year 2009, will help fulfill the Board's February 2007 decision to increase and broaden investments in alternative assets. SERS hired a hedge fund consultant in July 2007 to guide and assist Staff in building two hedge fund portfolios, one funded within fixed income and one funded within equities. Together, Staff, the hedge fund consultant, and the general investment consultant developed investment guidelines for these portfolios in August and September 2007. Between October 2007 and April 2008, Staff and the hedge fund consultant conducted due diligence on hedge fund managers, making subsequent recommendations to the Board. Between November 2007 and June 2008 SERS' Board approved investments in 27 hedge funds. After obtaining Board approval, Staff continued its due diligence, initiated legal reviews, and entered into negotiations with managers, leading to subscriptions in the initial eight funds in time for the June 1, 2008, investment.

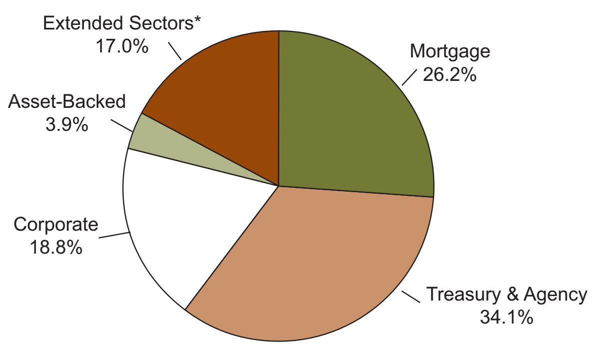
### GLOBAL FIXED INCOME RETURNS




### QUALITY DISTRIBUTION




### SECTOR DISTRIBUTION




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

### LARGEST INDIVIDUAL GLOBAL FIXED INCOME HOLDINGS AS OF JUNE 30, 2008

| | Description | Rating | Par Value | Market Price | Fair Value |
|---|---|---|---|---|---|
| 1 | FNMA TBA 5.0% 07/01/2038 | AAA | $ 71,000,000 | $ 0.96 | $ 68,046,400 |
| 2 | FNMA TBA 6.0% 07/01/2038 | AAA | 33,000,000 | 1.01 | 33,290,400 |
| 3 | FNMA TBA 5.0% 07/01/2023 | AAA | 30,000,000 | 0.99 | 29,664,000 |
| 4 | FNMA Pool #0888560 6.0% 11/01/2035 | AAA | 26,657,523 | 1.01 | 27,031,683 |
| 5 | FNMA Pool #0745148 5.0% 01/01/2036 | AAA | 23,693,401 | 0.96 | 22,746,850 |
| 6 | FNMA Pool #0888379 VRN 12/01/2036 | AAA | 20,665,608 | 1.02 | 20,988,612 |
| 7 | US Treasury Notes 3.25% 08/15/2008 | AAA | 20,000,000 | 1.00 | 20,044,000 |
| 8 | General Motors Acceptance Corp. 6.875% 09/15/2011 | B | 25,000,000 | 0.72 | 17,964,750 |
| 9 | FNMA Pool #0888631 6.0% 08/01/2022 | AAA | 16,967,220 | 1.02 | 17,381,729 |
| 10 | Ford Motor Credit Co. 7.375% 02/01/2011 | BB- | 21,200,000 | 0.81 | 17,205,072 |

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

## Global Real Estate

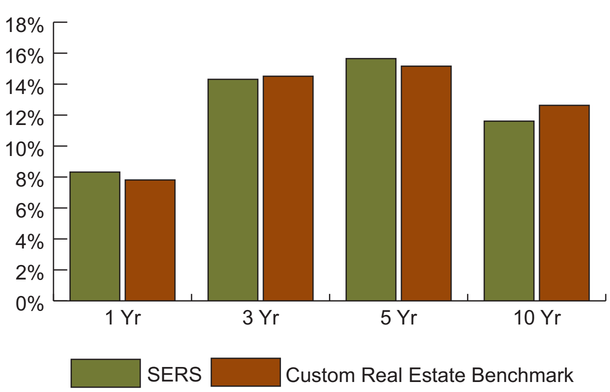
SERS invests in real estate to provide stable long-term rates of returns and to diversify its assets in order to reduce total fund volatility. SERS' global real estate portfolio consists primarily of investments in office buildings, shopping centers, apartment communities, and industrial facilities in the US and outside the US; the portfolio also includes shares of publicly traded real estate investment trusts (REITs).

SERS' target allocation to real estate is 10% of the Total Fund with a range of +/-5%. As of June 30, 2008, the real estate portfolio was approximately $1.3 billion, or 11.8% of the Total Fund. Unfunded commitments to real estate funds totaled approximately $328.0 million at fiscal year end. During the past fiscal year, SERS made commitments to three real estate funds totaling approximately $150.0 million. The new commitments targeted value added, opportunistic, and structured real estate strategies in the US.

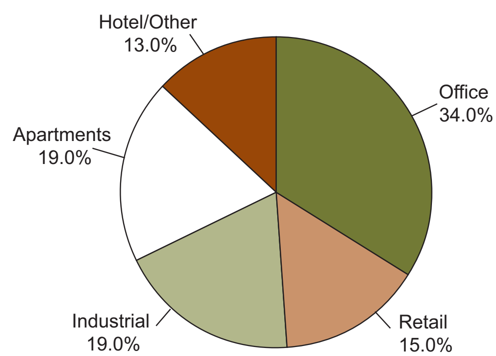
Globally, private market and public market real estate suffered the consequences of the credit market crisis as several years of stellar returns came to an end during the fiscal year. The most severe effect occurred in US, European, and Asian REITs, which declined in value nearly 12% per FTSE EPRA/NAREIT Global Index. Continued healthy property fundamentals in the private markets did not support such a decline and as a result, global private market real estate in most regions has not corrected as sharply as real estate securities. As of June 30, 2008, private real estate assets in the US, as measured by the NCREIF Property Index, returned 9.2% for the one-year trailing period.

During the fiscal year, SERS' real estate portfolio produced a total return of 8.3% versus the custom real estate benchmark return of 7.8%. For three-, five-, and ten-year periods, the real estate portfolio produced returns of 14.3%, 15.7%, and 11.6% respectively. All returns, except REITs, are reported one quarter in arrears.

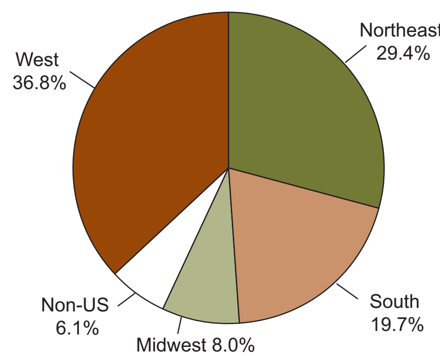
**GLOBAL REAL ESTATE RETURNS**




**PROPERTY TYPE DIVERSIFICATION**




**REGIONAL DIVERSIFICATION**




**LARGEST INDIVIDUAL GLOBAL REAL ESTATE HOLDINGS AS OF JUNE 30, 2008**

| | Description | Fund Fair Value |
|---|---|---|
| 1 | J.P. Morgan Strategic Property Fund | $ 151,505,936 |
| 2 | UBS Realty Separate Account | 119,303,301 |
| 3 | ING Clarion Lion Properties Fund | 114,419,295 |
| 4 | RREEF America II | 113,682,683 |
| 5 | Prudential RISA II | 87,322,611 |
| 6 | Prudential RISA | 71,204,608 |
| 7 | ING Clarion Lion Industrial Trust | 68,786,409 |
| 8 | Blackrock Strategic Apartment Fund | 41,982,893 |
| 9 | CB Richard Ellis Strategic Partners IV | 41,696,436 |
| 10 | Fillmore West Fund | 32,749,962 |

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

## Investment Consultants & Investment Managers

**Investment Consultants**
- Aksia LLC
- Summit Strategies Group

**Investment Managers – US Equity**
- Aronson + Johnson + Ortiz
- Delaware Investments
- DePrince, Race and Zollo
- Enhanced Investment Technologies (INTECH)
- GlobeFlex Capital
- Jacobs Levy Equity Management
- Lord, Abbett & Co.
- PENN Capital Management
- State Street Global Advisors
- Western Asset Management Company

**Investment Managers – Non-US Equity**
- Acadian International
- AllianceBernstein
- Arrowstreet Capital
- Artio Global Management
- AXA Rosenberg Investment Management
- Dimensional Fund Advisors
- GlobeFlex Capital
- LSV Asset Management
- McKinley Capital Management, Inc.
- Mondrian Investment Group, Inc.
- Morgan Stanley Investment Management Limited
- Pictet International Management Limited
- Scottish Widows Investment Management
- State Street Global Advisors
- TT International Advisors, Inc.
- Walter Scott & Partners Limited

**Investment Manager – Futures**
- Russell Investment Group

**Investment Managers – Foreign Currency**
- Pareto Investment Management Limited
- State Street Global Advisors

**Securities Lending Agents**
- Goldman Sachs Agency Lending
- Wachovia Global Securities Lending

**Investment Managers – Private Equity**
- Blue Chip Venture Company
- Blue Point Capital Partners
- Brantley Partners
- Bridgepoint Europe
- CID Equity Partners
- Cinven Limited
- Coller Capital
- Evergreen Pacific Partners
- FdG Associates
- FS Equity Partners
- Goldman Sachs & Co.
- Graham Partners, Inc.
- Horsley Bridge Partners
- J.P. Morgan Investment Management, Inc.
- Kohlberg & Company
- Leonard Green & Partners
- Linsalata Capital Partners
- Mason Wells Private Equity
- Morgenthaler Venture Partners
- Oak Hill Capital Partners
- Odyssey Investment Partners
- Peppertree Partners
- Performance Equity Management
- Primus Venture Partners
- Providence Equity Partners, Inc.
- Quantum Energy Partners
- Silver Lake Partners
- Swander Pace Capital Partners
- Thomas H. Lee Partners
- Transportation Resource Partners
- Warburg Pincus

Distribution Manager – T. Rowe Price

**Investment Managers – Fixed Income**
- Bridgewater Associates, Inc.
- Cantillon Capital Management
- Davidson Kempner Capital Management
- D.E. Shaw & Co.
- Dodge & Cox, Inc.
- Fore Research and Management
- Glenview Capital Management
- Golden Tree Asset Management
- Goldman Sachs & Co.
- Johnson Investment Counsel, Inc.
- Linden Advisors
- Marathon Asset Management
- Pacific Investment Management Company
- Renaissance Technologies
- Stark Offshore Management
- Taconic Capital Advisors
- ValueAct Capital Management
- Viking Global Investors
- Wellington Management Company
- Western Asset Management Company

**Investment Managers – Real Estate**
- AEW Capital Management
- Beacon Capital Partners
- BlackRock Realty
- Brookfield Asset Management
- CB Richard Ellis Investors
- Colony Capital
- Fillmore Capital Partners
- ING Clarion Real Estate
- INVESCO Realty Advisors
- J.P. Morgan Investment Management, Inc.
- Koll Bren Schreiber Realty Advisors
- Madison Marquette
- Prudential Real Estate Investors
- Rockspring Property Investment Managers
- Rothschild Realty Managers
- RREEF Real Estate Investment Managers
- The Carlyle Group
- UBS Realty Investors
- Urdang Securities Management

**Custodians**
- BNY Mellon Asset Servicing
- Huntington National Bank

**Master Recordkeeper**
- BNY Mellon Asset Servicing

**Investment Analytics**
- Mellon Analytical Solutions

## Summary Schedule of Brokers' Fees for US Equity Transactions for the year ended June 30, 2008

| Broker Name | Fees Paid | # of Shares Traded | Avg. Commission per Share |
|---|---|---|---|
| Investment Technology Group, Inc. | $ 183,315 | 18,715,662 | $ 0.010 |
| Merrill Lynch, Pierce, Fenner & Smith, Inc. | 160,701 | 6,296,527 | 0.026 |
| Jefferies & Co. | 121,935 | 3,802,791 | 0.032 |
| Instinet Clearing Services, Inc. | 85,522 | 3,456,164 | 0.025 |
| Goldman, Sachs & Co. | 84,333 | 7,459,997 | 0.011 |
| Credit Suisse Securities, LLC | 77,540 | 5,108,214 | 0.015 |
| Liquidnet, Inc. | 74,718 | 3,503,492 | 0.021 |
| UBS Warburg, LLC | 72,441 | 3,519,012 | 0.021 |
| JonesTrading Institutional Services, LLC | 70,679 | 2,303,094 | 0.031 |
| Lehman Brothers, Inc. | 68,320 | 3,977,008 | 0.017 |
| Deutsche Bank Securities, Inc. | 67,282 | 4,586,600 | 0.015 |
| Cantor Fitzgerald & Co., Inc. | 64,988 | 1,932,424 | 0.034 |
| Bear Stearns & Co., Inc. | 55,676 | 1,389,658 | 0.040 |
| Morgan Stanley & Co., Inc. | 52,063 | 6,526,876 | 0.008 |
| J.P. Morgan Securities, Inc. | 49,092 | 1,517,183 | 0.032 |
| State Street Global Markets, Inc. | 47,460 | 11,095,740 | 0.004 |
| CitiGroup Global Markets, Inc. | 44,537 | 1,238,545 | 0.036 |
| Wachovia Capital Markets, LLC | 39,950 | 1,076,759 | 0.037 |
| Rosenblatt Securities, LLC | 36,681 | 1,647,352 | 0.022 |
| Weeden & Co., Inc. | 36,157 | 1,718,249 | 0.021 |
| Bank of America Securities, LLC | 33,738 | 1,678,308 | 0.020 |
| Guzman and Co. | 33,376 | 1,489,460 | 0.022 |
| Raymond, James & Associates, Inc. | 31,374 | 710,521 | 0.044 |
| ICAP Securities USA, LLC | 27,568 | 689,192 | 0.040 |
| Citation Financial Group, LP | 26,119 | 531,973 | 0.049 |
| Stifel Nicolaus Co., Inc. | 25,058 | 579,906 | 0.043 |
| RBC Capital Markets Corp. | 22,535 | 578,775 | 0.039 |
| BNY ConvergEx Execution Solutions, LLC | 19,404 | 707,630 | 0.027 |
| Friedman Billings & Ramsey | 16,521 | 371,780 | 0.044 |
| Green Street Advisors | 15,523 | 318,770 | 0.049 |
| Cap Institutional Services, Inc. | 13,955 | 507,700 | 0.027 |
| Robert W. Baird, & Co., Inc. | 13,295 | 459,432 | 0.029 |
| Avian Securities, Inc. | 13,229 | 661,450 | 0.020 |
| La Branche Financial Services, LLC | 12,998 | 649,900 | 0.020 |
| Keybank Capital Markets, Inc. | 12,719 | 347,165 | 0.037 |
| JNK Securities Corp. | 12,587 | 535,660 | 0.023 |
| M. Ramsey King Securities, Inc. | 11,048 | 432,008 | 0.026 |
| William O'Neil & Co., Inc. | 9,940 | 234,830 | 0.040 |
| Fidelity Capital Markets | 9,831 | 600,500 | 0.016 |
| Sanford C. Bernstein & Co., Inc. | 9,009 | 511,170 | 0.018 |
| Keefe, Bruyette & Woods, Inc. | 8,344 | 217,520 | 0.038 |
| National Financial Services Corp. | 8,214 | 406,455 | 0.020 |
| Pulse Trading, LLC | 7,856 | 392,800 | 0.020 |
| Brokers with less than $7,650 (74) | 149,151 | 5,348,772 | 0.028 |
| Total US | $ 2,036,782 | 109,833,024 | $ 0.019 |

## Summary Schedule of Brokers' Fees for Non-US Equity Transactions for the year ended June 30, 2008

| Broker Name | Fees Paid | # of Shares Traded | Avg. Commission per Share |
|---|---|---|---|
| Merrill Lynch, Pierce, Fenner & Smith, Inc. | $ 493,467 | 217,034,398 | $ 0.002 |
| Pershing Securities Ltd. | 394,715 | 205,381,688 | 0.002 |
| Morgan Stanley & Co., Inc. | 349,435 | 245,058,464 | 0.001 |
| J.P. Morgan Securities, Inc. | 319,989 | 179,285,593 | 0.002 |
| Credit Suisse Securities, LLC | 306,716 | 253,442,399 | 0.001 |
| CitiGroup Global Markets, Inc. | 247,639 | 158,525,448 | 0.002 |
| UBS Warburg, LLC | 237,403 | 116,385,388 | 0.002 |
| Bear Stearns & Co., Inc. | 177,474 | 136,113,560 | 0.001 |
| Credit Lyonnais Securities, Inc. | 173,997 | 83,104,100 | 0.002 |
| Deutsche Bank AG | 161,651 | 71,249,775 | 0.002 |
| Goldman Sachs & Co. | 145,506 | 81,795,894 | 0.002 |
| SG Securities | 141,387 | 157,768,104 | 0.001 |
| MacQuarie Securities Ltd. | 140,703 | 54,075,658 | 0.003 |
| Nomura Securities International, Inc. | 117,075 | 66,241,908 | 0.002 |
| Lehman Brothers, Inc. | 111,135 | 67,728,933 | 0.002 |
| Sanford C. Bernstein & Co., LLC | 69,023 | 16,591,901 | 0.004 |
| Credit Agricole Cheuvreux | 66,542 | 25,479,390 | 0.003 |
| Instinet Clearing Services, Inc. | 62,444 | 83,123,026 | 0.001 |
| Brockhouse & Cooper, Inc. | 54,360 | 72,969,150 | 0.001 |
| Societe Generale Securities, LLC | 49,943 | 8,467,614 | 0.006 |
| HSBC Securities, Inc. | 44,211 | 22,607,536 | 0.002 |
| Kepler Equities | 38,539 | 31,573,490 | 0.001 |
| Jefferies & Co. | 37,238 | 24,852,870 | 0.001 |
| Cantor Fitzgerald & Co., Inc. | 36,979 | 12,621,414 | 0.003 |
| Cazenove and Co., Ltd. | 34,871 | 17,162,444 | 0.002 |
| ABG Sundal Collier Norge Ltd. | 34,252 | 13,782,865 | 0.002 |
| UBS Securities, LLC | 33,606 | 30,583,054 | 0.001 |
| ABN Amro Bank NV | 32,902 | 16,836,557 | 0.002 |
| Mitsubishi UFJ Financial Group | 28,720 | 16,803,906 | 0.002 |
| ING Barings Corp. | 27,908 | 13,863,727 | 0.002 |
| Agora Corde Titul E Val Mob | 27,832 | 70,018,134 | 0.000 |
| Instinet Clearing Services, Inc. | 26,323 | 32,545,954 | 0.001 |
| Exane SA | 26,161 | 21,114,526 | 0.001 |
| BNP Paribas SA | 25,989 | 14,262,915 | 0.002 |
| Dresdner Kleinworth Wasserstein Securities LLC | 25,161 | 16,485,064 | 0.002 |
| KBC Financial Products Ltd. | 20,518 | 9,624,885 | 0.002 |
| Julius Baer Brokerage SA | 18,123 | 10,000,644 | 0.002 |
| ITG, Inc. | 17,158 | 33,263,898 | 0.001 |
| MainFirst Bank AG | 16,772 | 11,223,851 | 0.001 |
| Skandinaviska Enskilda Banken | 15,414 | 9,980,754 | 0.002 |
| Mizuho International PLC | 15,219 | 5,855,516 | 0.003 |
| Daiwa Securities America, Inc. | 14,046 | 6,915,445 | 0.002 |
| CA IB Investment Bank AG | 13,479 | 2,154,614 | 0.006 |
| Brokers with less than $12,700 (140) | 407,246 | 206,423,027 | 0.002 |
| Total Non-US | $ 4,839,271 | 2,950,379,481 | $ 0.002 |

# Investment Notes

## Investment Summary

| Portfolio Type | Fair Value | % of Total Fair Value |
|---|---|---|
| US Equity | $ 2,875,005,133 | 26.5% |
| Non-US Equity | 3,270,200,206 | 30.2 |
| Private Equity | 638,163,305 | 5.9 |
| Fixed Income | 2,662,009,502 | 24.5 |
| Real Estate | 1,275,896,255 | 11.8 |
| Short-Term | 119,577,119 | 1.1 |
| Net Portfolio Value | $ 10,840,851,520 | 100.0% |

| Reconciliation to Statement of Plan Net Assets | |
|---|---|
| Net portfolio value | $ 10,840,851,520 |
| Accrued income and expenses | 398,311 |
| Accounts receivable, securities sold | (408,062,278) |
| Accounts payable, securities purchased | 510,328,015 |
| Fair market value adjustment | 4,717,248 |
| Cash and cash equivalents | (318,458,379) |
| Investments per Statement of Plan Net Assets | $ 10,629,774,437 |

# Investment Results

FOOTNOTES TO SCHEDULE OF INVESTMENT RESULTS ON PAGE 45:

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

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

(3) Private equity returns are reported one quarter in arrears beginning with the quarter ended June 30, 2002, and do not reflect the adjustment to fair market value. To implement quarter in arrears reporting, the returns for private equity were recorded as zero for the quarter ended June 30, 2002.

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

(5) The Real Estate composite returns are reported one quarter in arrears beginning with the quarter ended June 30, 2002, and do not reflect the adjustment to fair market value. To implement quarter in arrears reporting, the returns for private real estate assets were recorded as zero for the quarter ended June 30, 2002. Public Real Estate returns are reported in the current quarter.

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

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

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

(9) On 5/31/07, the OSERS benchmark was changed to 29% Russell 3000, 29% MSCI AC World Free ex-US Index (50% developed markets hedged), 24% Lehman Brothers Aggregate Index, 10% SERS Real Estate Custom Benchmark, 7% S&P 500 Index + 300 bps, and 1% CitiGroup 30 Day T-Bill Index. Prior to 5/31/07, the OSERS Policy Benchmark consisted of 46% Russell 3000 Index, 16% MSCI AC World Free ex-US Index (50% developed markets hedged), 23% Lehman Brothers Aggregate Index, 10% SERS Real Estate Custom Benchmark, 3% S&P 500 Index + 300 bps, 2% CitiGroup 30 Day T-Bill Index. For the quarter ended June 30, 2002, Private Equity Benchmark (one quarter in arrears) reflected a 0% return.

## Statement of Investment Policy

**I. Purpose of Policy Statement**

The purpose of this Statement of Investment Policy (Policy Statement) is to set forth the investment philosophy and objectives of the Retirement Board (Board) for the School Employees Retirement System of Ohio (SERS).

This Policy Statement:

A. incorporates and is subject to all restrictions and obligations set forth in Chapter 3309 of the Ohio Revised Code;

B. establishes investment policies and describes the organization and division of responsibilities necessary to implement the Board's philosophy and objectives prudently; and

C. establishes a framework for monitoring investment activity, and promotes effective communication between the Board, Staff, and other involved parties.

This Policy Statement is subject to change at any time by the Board. The Board will review the Policy Statement and revise it periodically to assure it continues to reflect the investment philosophy, objectives and strategies of the Board.

**II. Investment Philosophy**

The Board recognizes the need to prudently manage SERS assets (the Fund) to meet its statutory and fiduciary obligations and to achieve or exceed its objectives. The Board's investment philosophy is grounded in fundamental, prudent investment principles, incorporating modern portfolio theory and in-depth analyses and monitoring. The Board believes it can provide consistent, long-term performance at appropriate levels of risk. By delineating responsibilities and defining policy objectives, this Policy Statement reflects the Board's investment philosophy.

**III. Investment Objectives**

The Investment Objectives of SERS are:

A. to assure that SERS provides statutorily-mandated retirement benefits,

B. to earn a net-of-fees total return that equals or exceeds the Actuarial Assumed Rate approved by the Board over the long-term, and

C. to enhance risk-adjusted investment returns of the Fund in a prudent and cost-effective manner.

**IV. Risk Management**

A. The Board evaluates risk in terms of the probability of not earning the actuarial assumed rate over the long-term. Diversification across asset classes, within asset classes, and across investment styles, sectors and securities will be employed to reduce overall portfolio risk and volatility.

B. Other risks, including but not limited to those such as interest rate risk and credit risk will be managed and carefully monitored by Investment Managers and Investment Staff.

**V. Implementation Approach**

A. The Board reserves certain responsibilities for itself, while delegating other responsibilities to the Executive Director, the Director of Investments, Investment Staff, Investment Managers, Investment Consultants, the Compliance Officer and other Investment Service Providers. These responsibilities are described in this Policy Statement.

B. In fulfilling its fiduciary duties the Board utilizes a competent and qualified Staff to manage daily operations.

C. The Board requires regular reporting on the Fund's investment program to ensure compliance with its Policy Statement.

**VI. Investment Organization and Responsibilities**

A. Responsibilities of the ***Board***

The Board as a fiduciary is responsible for ensuring that Fund assets are managed prudently and effectively, in compliance with applicable laws and this Policy Statement, for the exclusive benefit of participants.

Responsibilities of the Board include:

1. establishing controls and systems to ensure that Fund fiduciaries comply with applicable laws;
2. establishing asset allocation and investment policies for SERS assets;
3. appointing and discharging those responsible for managing SERS assets, including the Executive Director and Board consultants;
4. appointing and discharging Investment Managers;
5. monitoring and reviewing investment performance and policy compliance;
6. requesting, receiving and reviewing reports from Investment Staff, Board consultants and other entities, if applicable; and
7. reviewing, approving and revising an Annual Investment Plan (Annual Plan).

B. Responsibilities of ***Staff***

Staff will administer Fund assets as fiduciaries, and in accordance with applicable federal and state laws and regulations, this Policy Statement, ethics laws, codes of professional conduct (in particular, the CFA Standards of Professional Conduct and Code of Ethics), and other applicable codes and/or regulations. Staff will establish plans, policies and procedures to carry out these duties.

1. The ***Executive Director*** is responsible for:
   a. ensuring that reports of the Fund’s investment performance are presented on a timely basis;
   b. retaining vendors, consultants and advisors as necessary to assist staff;
   c. approving for Board consideration the recommendation of the Director of Investments’ and Investment Staff to appoint or discharge Investment Managers;
   d. discharging Investment Managers on an emergency basis in accordance with paragraph VI.G., below, following a recommendation by the Director of Investments, the Investment Staff and with the concurrence of the Investment Consultant;
   e. appointing and discharging Investment Director and Investment Staff; and
   f. overseeing the investment function.
2. The ***Director of Investments*** is responsible for:
   a. overseeing the Investment Program and keeping the Executive Director advised;
   b. preparing and presenting to the Board for approval the Annual Plan;
   c. implementing the Annual Plan;
   d. investigating and researching new and emerging investment concepts and strategies, and recommending or implementing appropriate strategies;
   e. informing Investment Managers, Investment Consultants and others providing investment services to SERS about the requirements of applicable laws and Board policies, and monitoring their compliance with said laws and policies;
   f. adjusting allocations to Asset Classes and Investment Managers as needed, and in accordance with this Policy Statement;
   g. recommending the appointment or discharge of Investment Managers to the Executive Director and the Board, as needed;
   h. discharging Investment Managers on an emergency basis in accordance with paragraph VI.G., below following a recommendation by Investment Staff and with the concurrence of the Investment Consultant and approval by the Executive Director;
   i. activating back-up investment managers previously approved by the Board, and advising the Board of such actions at its next scheduled meeting;

j. approving investment manager style changes and additions and advising the Board at its next scheduled meeting; however, any change in mandate requires prior Board approval;

k. supervising Investment Staff;

l. monitoring and evaluating the effectiveness of executed securities transactions and reporting annually to the Board the performance of agents who execute securities transactions on behalf of SERS;

m. periodically reporting proxy voting activity to the Board; and

n. regularly reporting the status of the Fund and its multi-period performance to the Board.

3. The ***Investment Staff*** is responsible for:

a. promptly voting, or instructing Investment Managers to vote, proxies and related actions, and maintaining detailed records of proxy votes and related actions for the Director of Investments;

b. regularly reporting the status of the Fund and its multi-period performance to the Director of Investments;

c. meeting and speaking with existing or potential Investment Managers periodically to review and assess the quality of their investments and management of assets;

d. performing ongoing due diligence to evaluate and monitor Investment Manager capabilities relative to managing Fund assets;

e. recommending to the Director of Investments additions or withdrawals from Investment Manager accounts, or rebalancing of asset class allocations;

f. recommending to the Director of Investments the appointment or discharge of Investment Managers;

g. investing assets of the Cash Equivalents portfolio;

h. investigating and researching new and emerging investment concepts and strategies, and recommending or implementing those strategies to the Director of Investments; and

i. preparing regular periodic reports for the Director of Investments on the performance of agents who execute securities transactions on behalf of SERS.

C. Responsibilities of ***Investment Service Providers***

Investment Service Providers who do business or seek to do business with SERS will act in the best interest of SERS when providing services to SERS or the Fund. Investment Service Providers will:

1. comply with all applicable federal and state laws and regulations, with this Policy Statement, and with all applicable professional codes and regulations;

2. have established ethics and conflict of interest policies and procedures, and proper internal compliance controls in place if applicable;

3. disclose to Investment Staff any actual or potential conflict of interest at the earliest opportunity;

4. disclose any investigation of, or litigation involving its operations, to Investment Staff as permitted by law; and

5. provide annual or other periodic disclosures as required.

The Director of Investments will adopt procedures as appropriate to implement this section.

D. Responsibilities of ***Investment Managers***

Investment Managers and Investment Staff managing assets internally are responsible for prudently investing Fund assets as fiduciaries. In addition to those applicable responsibilities described in VI.C., Investment Managers and internal staff members will:

1. manage assets within their control in compliance with all applicable federal and state laws and regulations, including but not limited to applicable ethics requirements, this Policy Statement, contractual obligations, and applicable professional codes of conduct;

2. inform the Director of Investments and Investment Staff of any substantial changes in investment strategy,

portfolio structure, asset value, and of any organizational changes, including that of ownership, affiliation, organizational structure, financial condition, or changes in professional personnel staffing in the investment management organization;

3. present in-depth reports to Investment Staff;

4. recommend to Investment Staff changes to investment guidelines the Investment Manager believes would enhance investment performance on a risk adjusted basis; and

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

E. Responsibilities of ***Investment Consultants***

Investment Consultants will:

1. provide services as a fiduciary and in accordance with all applicable federal and state laws and regulations including, but not limited to, applicable ethics requirements; in accordance with this Policy Statement; and with all applicable professional codes and/or regulations;

2. provide independent and unbiased research, information and advice to the Board and Staff;

3. assist in the development and amendment of this Policy Statement;

4. assist in the development of strategic asset allocation targets and ranges;

5. assist in the development of performance measurement standards;

6. monitor and evaluate Investment Manager performance as appropriate on an ongoing basis;

7. recommend the retention or discharge of Investment Managers to Staff or the Board as appropriate;

8. collaborate with Investment Staff in the due diligence of potential Investment Managers and existing Investment Managers, as requested by Staff;

9. assist in the development of criteria for and procedures to be utilized in the selection of Investment Managers;

10. provide research, information and advice on investment topics and strategies considered relevant by the Investment Consultant, or when requested by the Board or Investment Staff;

11. provide those services delineated in the Advisory or Consultant Agreement; and

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

F. Responsibilities of the ***Compliance Officer***

The Compliance Officer is responsible for:

1. monitoring and reporting compliance with this Policy Statement and Board Resolutions;

2. ensuring that investment management agreements and related contracts comply with the Policy Statement;

3. ensuring that Investment Service Providers and Investment Managers comply with Sections VI.C. and D., herein; and

4. identifying and, in concert with Investment Staff, resolving compliance violations by Investment Managers and Investment Staff relative to their respective investment guidelines. Staff will ensure that those accounts with guideline violations are efficiently and effectively brought back into compliance.

G. Emergency Situations

The Board authorizes the Executive Director and the Director of Investments to discharge investment managers without Board approval in emergency situations where immediate action is necessary to protect the interests of the Fund. In such emergency situations the Executive Director or the Director of Investments will notify the Chairman or

Vice Chairman of the Board prior to taking action, if possible, and will notify the Board of its actions by email within one business day of said discharge. Staff will address the situation with the Board at its next scheduled meeting.

**VII. Implementation Strategies**

A. Asset Allocation

The Board will conduct an asset and liability study every three to five years, sooner if necessary, in order to establish allocation targets and ranges for asset classes within distinct capital markets.

In order to identify the investment horizon of SERS and its cash flow requirements, liability considerations will include but not be limited to current and expected future values of the benefits, contributions and total assets.

Having given due consideration to an asset and liability study conducted by the Investment Consultant, which study met the requirements of this Policy Statement, the Board hereby recognizes and reaffirms the following asset allocation for SERS:

| ASSET CLASS | TARGET | RANGE |
|---|---|---|
| **Equity** | **65%** | **60% - 70%** |
| Domestic | 29% | 24% - 34% |
| International | 29% | 24% - 34% |
| Global Private Equity | 7% | 0% - 10% |
| **Fixed Income** | **35%** | **30% - 40%** |
| Global Bonds | 24% | 19% - 29% |
| Global Real Estate | 10% | 5% - 15% |
| Cash Equivalents | 1% | 0% - 2% |

The Board authorizes the use of Hedge Fund and Portable Alpha strategies in the Fund. Allocations to said strategies in total will not exceed 10% of the Fund's value.

B. Derivatives

The Board authorizes the use of derivatives in the Fund and authorizes the Director of Investments with the advice and assistance of the Investment Consultant to develop and implement derivatives strategies as needed. The Director of Investments will adopt a derivatives policy setting forth general guidelines for derivatives use.

C. Leverage

The Board authorizes the use of leverage in the Fund and authorizes the Director of Investments with the advice and assistance of the Investment Consultant to develop and implement certain leverage strategies. The Director of Investments will adopt a leverage policy setting forth general guidelines for the use of leverage.

D. Rebalancing

The Director of Investments will adopt a rebalancing strategy for the Fund which ensures adherence to the asset allocation strategy in Section VII.A. The strategy may delegate certain authority to Investment Staff.

E. Currency Hedging

The Board authorizes currency hedging in the Fund and authorizes the Director of Investments with the advice and assistance of the Investment Consultant to develop and implement currency hedging strategies as needed.

F. Transition Management

The Board authorizes the Executive Director and the Director of Investments to hire Transition Managers as needed.

G. Proxy Voting

The Board authorizes Investment Staff to vote proxies of common stock owned by SERS and to hire proxy services as required to implement this strategy. The Director of Investments will adopt and implement procedures for voting proxies as described in the Proxy Policy.

H. Securities Lending

The Board authorizes Investment Staff to develop and implement a securities lending program which may involve the appointment or discharge of third party securities lending agents by the Executive Director or the Director of Investments.

I. Investment Managers

The Board will approve Investment Managers and Backup Investment Managers based upon recommendations of Investment Staff or Investment Consultants as may be appropriate, and discussions with some Managers during Board presentations.

Investment Managers will adhere to investment guidelines established by Investment Staff, as well as all applicable laws and policies. The Director of Investments is authorized to establish and amend said investment guidelines as needed.

It is a goal of the Board to increase the utilization of Ohio-qualified Investment Managers when an Ohio-qualified Investment Manager offers quality, services and safety comparable to other Investment Managers available to the Board, and the use of such Investment Manager is consistent with the Board's fiduciary duties.

J. Approved Agents

Agents, or broker/dealers who may provide execution of securities transactions for SERS will be evaluated on the basis of financial soundness, underwriting capabilities, research services, execution costs, and any other capabilities necessary in the execution of such transactions. Investment Managers which use such agents will use their good faith judgment to ensure that said agents will perform in the best interest of the Fund.

It is a goal of the Board to increase its utilization of Ohio-qualified agents for the execution of domestic equity and domestic fixed income trades when an Ohio-qualified agent offers quality, services, and safety comparable to other agents available to the Board or its Investment Managers, and the use of such agent is consistent with the Board's fiduciary duties.

K. Security Litigation

SERS will follow the securities litigation policy and procedures as approved by the Board in setting out a course of action that best represents the interests of SERS' participants and beneficiaries.

L. Other

The strategies listed herein are not meant to constrain the Director of Investments from prudently managing the Investment Program. The Director of Investments may develop and implement additional investment strategies as needed.

**VIII. Performance**

A. Performance Measurement Standard

Performance evaluation for the Fund will focus on total return, on an accrual accounting basis, including realized and unrealized capital gains and losses, and income. Valuations are to be made at least on a quarterly basis and period returns are to be geometrically linked. Private market asset returns may be reported one quarter in arrears. Cash and cash equivalents will be included in the portfolio's return. Performance will be calculated on a gross-of-fee basis.

B. Performance Benchmark – Total Fund

Performance of the Fund relative to benchmarks will be examined monthly, and will be reported for multiple time periods as needed. The Board's Investment Consultant will calculate and report performance net-of-fees on a quarterly basis.

The performance benchmark for the Fund will be the target-weighted average of the performance benchmark for each asset class, except when the Global Private Equity (GPE) allocation is less than its target weight. When the GPE allocation is less than its target weight GPE will be weighted by its actual allocation, and Domestic Equity and International Equity each will be over-weighted by one-half the difference between the GPE target and the GPE actual allocation.

C. Performance Benchmarks – Asset Classes

The long-term performance benchmark for each asset class is shown below. For purposes of this section, long-term refers to rolling three to five year periods. Performance in each asset class should meet or exceed the Benchmark measure.

| Asset Class | Benchmark Measure |
|---|---|
| Domestic Equity | Russell 3000 Index |
| International Equity | Morgan Stanley Capital International – All Country World Free ex-U.S. Index – 50% hedged for developed countries |
| Global Private Equity | Standard & Poor's 500 plus 300 basis points (one quarter in arrears) |
| Global Fixed-Income | Lehman Brothers Aggregate Bond Index |
| Global Real Estate | 80% NCREIF Property Index (one quarter in arrears); 20% NAREIT Equity Index |
| Cash Equivalents | Citigroup 30-day T-Bill Index |

D. Performance Benchmarks -- Individual Investment Managers

Investment Staff will establish performance benchmarks for each Investment Manager based on its respective style.

**IX. Review and Evaluation**

The Board will review and evaluate periodic reports on the investment performance of Fund assets. Greater emphasis will be placed on three to five year results. The intended frequency for review and evaluation, subject to change by the Board, is as follows:

A. Monthly - Investment Report including total Fund market value, asset allocation, performance of the Fund and each asset class, and the Fund's compliance with this Policy Statement.

B. Quarterly – Summary Investment Report presented by the Investment Consultant, including highlights and commentary about market conditions, investment performance, asset composition and characteristics for each asset class, and relevant manager level information.

This policy supersedes the policy adopted August 2, 1985 and all revised policies dated 10/01/07; 10/20/05; 09/15/00; 10/23/98; 6/19/98; 12/12/97; 7/25/97; 3/21/97; 12/20/96; 11/22/96; 6/21/96; 4/25/96; 9/15/95; 7/28/95; 6/16/95; 3/17/95; 1/20/95; 10/21/94; 5/20/94; 3/06/92; 4/07/89; 9/04/87; 1/09/87.

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# ACTUARIAL SECTION

Cavanaugh Macdonald
CONSULTING, LLC
*The experience and dedication you deserve*

November 6, 2008

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

Dear Board Members:

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

In order to measure progress toward this fundamental objective, SERS has an actuarial valuation performed each year. The valuation (i) measures present financial position, and (ii) establishes contribution rates that provide for the current cost and level percent of payroll amortization of the unfunded actuarial accrued liability over a reasonable period. The valuation performed as of June 30, 2008 indicates that a contribution rate of 9.84% of payroll for 124,370 school employees meets the basic financial objective.

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

- to basic benefits, the post-retirement death benefit and the Medicare Part-B supplement, the portion which will pay normal cost and 28 year amortization of unfunded actuarial accrued liabilities; and

- to health care benefits, the remainder of employer contributions.

The actuarial valuation of the basic benefits, the post-retirement death benefit and the Medicare Part-B supplement is based upon financial and participant data which is prepared by Retirement System staff, assumptions regarding future rates of investment return and inflation, and rates of retirement, turnover, death, and disability among SERS members and their beneficiaries. We review the data for internal and year-to-year consistency as well as general reasonableness prior to its use in the actuarial valuations. It is also summarized and tabulated for the purpose of analyzing trends. The assumptions were adopted by the Board of Trustees and were based upon actual experience of SERS during the 2001-2005 fiscal years. Assets are valued according to a method that fully recognizes expected investment return and averages unanticipated market return over a four-year period. The assumptions and methods utilized in this valuation, in our opinion, meet the parameters established by Governmental Accounting Standards Board Statement No. 25.

3550 Busbee Pkwy, Suite 250, Kennesaw, GA 30144
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Board of Trustees
November 6, 2008
Page 2

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

On the basis of projections of health care fund activity and the surcharge limit established by Act 270, the allocated contributions are insufficient in the long-term to provide for a 20 year solvency period for the health care reserve fund. Such reserve is based on the projected claims and premium contributions for the next twenty years, as is described in the Statement of Funding Policy adopted by the Board on September 19, 2008.

The current benefit structure is outlined in the Plan summary. The benefits were changed for those who begin membership on or after May 14, 2008. For those members the normal and early retirement eligibilities were changed and the early retirement benefit was actuarially adjusted for benefits commencing before age 65 or 30 years of service. This change had a minimal impact on valuation results this year but will reduce overall costs in future years as more members are covered by the new benefit structure.

We provided information used in the schedules of Actuarial Accrued Liabilities, Active Member Valuation Data, Retirees and Beneficiaries Added To and Removed From Rolls, Analysis of Financial Experience, and the Schedule of Funding Progress in the Financial Section. For fiscal years prior to June 30, 2008, the information was provided by previous actuaries.

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

Sincerely,

Thomas J. Cavanaugh, FSA, FCA, EA, MAAA
Chief Executive Officer

TJC:kc

S:\Ohio SERS\2008\Outgoing Correspondence\Board of Trustees letter

# Pension

## Summary of Actuarial Assumptions and Methods

The SERS Board of Directors adopted the following actuarial assumptions and methods May 11, 2006, on the recommendation of its actuary. These assumptions were based on an analysis of plan experience for the five-year period July 1, 2000 through June 30, 2005, and were adopted for use in the valuation as of June 30, 2006. All historical information and data shown in this report with a valuation date prior to June 30, 2008, were obtained from the previous actuaries' valuation report.

**Funding Method** Basic benefits are determined using the entry age normal actuarial cost method. Under this cost method, projected service retirement, termination, disability, and death benefits are determined for all active members. Cost factors, which are developed to produce level annual costs in each year from the age at hire (entry age) to the assumed retirement age, are applied to the projected benefits to determine the "normal cost." The normal cost is the portion of the total cost of the plan allocated to the current year. The normal cost for contribution refunds is assumed to end in the last year of the assumed eligibility, and is spread over all years of service.

The "actuarial accrued liability" for active members is then calculated as the portion of the total cost of the plan allocated to prior years. The actuarial accrued liability for retirees currently receiving benefits, for active members beyond the assumed retirement age, and for inactive members entitled to future benefits, is equal to the present value of the benefits expected to be paid.

The dollar amount of the total actuarial accrued liability in excess of the value of the plan net assets is called the "unfunded actuarial accrued liability." Funding requirements under the entry age actuarial cost method are determined by adding the normal cost and the cost to amortize the unfunded liability.

Actuarial assumptions are used to determine the projected benefits and cost factors. The effect of differences between these assumptions and the actual experience of the plan is calculated each year when the annual actuarial valuation is performed. These differences produce either actuarial gains or losses that result in an adjustment of the unfunded liability.

**Contributions** During fiscal year 2008, active members and their employers were required to contribute 10% and 14%, respectively, of active member payroll. The Board allocates the employer contribution rate of 14% among basic benefits (pension, Medicare B, and death benefit) and health care in accordance with its funding policy. For the year ended June 30, 2008, the policy required the determination of a rate for basic benefits to amortize the unfunded actuarial accrued liabilities over a 28-year period. The remaining portion of the employer contribution was allocated to health care benefits.

| | |
|---|---|
| Pension Trust Fund | 9.13% |
| Medicare B Fund | .66 |
| Death Benefit Fund | .03 |
| Health Care Fund | 4.18 |
| | 14.00% |

Ohio Revised Code also provides for an employer contribution surcharge as an additional source of funding for health care. The surcharge is equal to 14% of the difference between a minimum pay amount and the member's pay, pro-rated for partial service credit. For the fiscal year 2008, the minimum pay amount was established at $35,800. The employer surcharge cap is applied at 2.0% of each employer's payroll and at 1.5% of total payroll statewide.

**Asset Valuation Method** 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 sizeable and persistent, a change is made to the actuarial assumptions.

SERS' Board of Directors adopted a method of valuing investment assets that recognizes a "smoothed" market value of those assets. The smoothed value of assets recognizes the difference between actual and expected performance for each year in equal amounts over a four-year period.

**Economic Assumptions** The following economic assumptions were used in the actuarial valuation as of June 30, 2008.

- **Investment Return** Net after all System expenses, the return on investments are compounded annually at 8.0%.
- **Inflation Rate** The inflation assumption was 3.5% per year. The real rate of return is the portion of total investment return which is more than the inflation rate. Considering inflation recognition of 3.5%, the 8.0% investment return rate translates to an assumed real rate of return of 4.5%.
- **Benefit increases** Cost-of-living adjustments of 3% per year after retirement were assumed.
- **Payroll Growth** Salary increases attributable to wage inflation of 4.0%, are projected and compounded annually. Additional projected salary increases ranging from .5% to 20.75% per year are attributable to seniority and merit. Pay increase assumptions for individual active members are shown for service durations in the following table:

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

**Non-Economic Assumptions**

- **Retirements** Eligibility for service retirement was assumed to be: age 50 with 30 or more years of service, age 55 with 25 years or more years of service, or age 60 with 5 or more years of service.

  Representative values of the assumed annual rates of service retirement are as follows:

| Annual Rates of Service Retirement | | |
|---|---|---|
| **Age** | **Male** | **Female** |
| 50 | 40.0% | 33.0% |
| 55 | 25.0 | 25.0 |
| 60 | 10.0 | 20.0 |
| 62 | 15.0 | 15.0 |
| 65 | 25.0 | 25.0 |
| 70 | 20.0 | 20.0 |
| 75 | 100.0 | 100.0 |

- **Death-in-Service and Disability Benefits** Separation from active service other than retirement or termination of employment assumed rates are:

| | Annual Rates of | | | |
|---|---|---|---|---|
| | Death | | Disability | |
| **Age** | **Male** | **Female** | **Male** | **Female** |
| 30 | 0.044% | 0.017% | 0.112% | 0.075% |
| 40 | 0.053 | 0.033 | 0.405 | 0.157 |
| 50 | 0.114 | 0.065 | 0.825 | 0.394 |
| 60 | 0.335 | 0.193 | 0.825 | 0.608 |
| 70 | 1.082 | 0.635 | 0.825 | 0.608 |
| 74 | 1.557 | 0.917 | 0.825 | 0.608 |

- **Death after Retirement** For postretirement mortality, the table used in evaluating allowances to be paid was the 1994 Group Annuity Mortality Table, set back one year for both men and women. Special mortality tables were used for disability retirement. This assumption is used to measure the probabilities of each benefit payment being made after retirement.
- **Marriage Assumption** Based on prior experience, it is assumed that 80% of retirees are married, with the husband three years older than his wife.

## Actuarial Accrued Liabilities

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

**ACTUARIAL ACCRUED LIABILITIES AS OF JUNE 30, 2008**

| Present value of: | Basic Benefits | Medicare B | Death Benefit | Total |
|---|---|---|---|---|
| Future benefits to present retirees and survivors | $ 6,618,387,805 | $ 232,055,152 | $ 22,523,759 | $ 6,872,966,716 |
| Benefits and refunds to present inactive members | 436,722,863 | 9,026,618 | 1,447,589 | 447,197,070 |
| Allowances to present active members | | | | |
| Service | 6,142,956,649 | 100,560,016 | 5,897,552 | 6,249,414,217 |
| Disability | 320,336,610 | 4,649,173 | 415,961 | 325,401,744 |
| Survivor benefits | 105,766,993 | 1,734,957 | - | 107,501,950 |
| Withdrawal | 49,357,050 | 9,917,507 | 138,111 | 59,412,668 |
| Total Active AAL | 6,618,417,302 | 116,861,653 | 6,451,624 | 6,741,730,579 |
| Total AAL | $ 13,673,527,970 | $ 357,943,423 | $ 30,422,972 | $ 14,061,894,365 |

## Active Member Valuation Data

| Actuarial Valuation as of June 30 | Number of Active Members | Annual Payroll *(millions)* | Average Annual Salary | % Increase in Average Salary |
|---|---|---|---|---|
| 2008 | 124,370 | $2,651.8 | $21,322 | 0.8% |
| 2007 | 123,013 | 2,603.3 | 21,163 | 2.2 |
| 2006 | 123,266 | 2,553.3 | 20,714 | 3.8 |
| 2005 | 122,855 | 2,452.5 | 19,963 | 2.7 |
| 2004 | 123,139 | 2,394.1 | 19,442 | 3.3 |
| 2003 | 122,315 | 2,302.3 | 18,823 | 4.0 |

## Retirees and Beneficiaries Added to and Removed from Rolls

| | Added to Rolls | | Removed from Rolls | | Rolls at end of year | | Percent increase | Average |
|---|---|---|---|---|---|---|---|---|
| Year | No. | Annual Allowances | No. | Annual Allowances | No. | Annual Allowances | in Annual Allowances | Annual Allowances |
| 2008 | 3,448 | $46,243,749 | 2,159 | $1,256,318 | 64,818 | $652,373,571 | 7.4% | $10,065 |
| 2007 | 3,596 | 44,864,781 | 2,588 | 4,249,533 | 63,529 | 607,386,140 | 7.2 | 9,561 |
| 2006 | 3,750 | 40,115,408 | 2,662 | 1,276,484 | 62,521 | 566,770,892 | 7.4 | 9,065 |
| 2005 | 3,683 | 38,670,969 | 2,819 | 2,357,850 | 61,433 | 527,931,968 | 7.4 | 8,594 |
| 2004 | 3,013 | 32,500,992 | 2,443 | 2,094,156 | 60,569 | 491,618,849 | 6.6 | 8,117 |
| 2003 | 3,414 | 31,177,197 | 2,764 | 2,182,240 | 59,999 | 461,212,013 | 6.7 | 7,687 |

## Analysis of Financial Experience

**Gains & Losses in Accrued Liabilities Resulting from Differences Between Assumed Experience & Actual Experience in the Pension, Medicare B, and Death Benefit Funds**

| Type of Risk Area | Gain/(Loss) for Year in Millions 2008 | 2007 | 2006 | 2005 | 2004 | 2003 |
|---|---|---|---|---|---|---|
| Age & Service Retirements<br>If members retire at older ages than assumed, there is a gain. If younger ages, a loss. | $ (96.1) | $ 13.4 | $ 37.9 | $ (82.6) | $ (45.2) | $ (29.7) |
| Disability Retirements<br>If disability claims are less than assumed, there is a gain. If more claims, a loss. | (3.5) | 0.9 | 1.2 | 2.1 | 0.0 | (0.3) |
| Death-In-Service Benefits<br>If claims costs are less than assumed, there is a gain. If more claims, a loss. | (0.6) | (0.3) | 0.2 | (0.7) | 0.5 | (0.3) |
| Pay Increases<br>If there are smaller pay increases than assumed, there is a gain. If greater increases, a loss. | 95.8 | 121.0 | 76.4 | 101.6 | 83.6 | 28.0 |
| Investment Return<br>If there is greater investment return than assumed, there is a gain. If less return, a loss. | (6.6) | 504.3 | 44.7 | (397.4) | (763.8) | (781.4) |
| Withdrawal<br>If more liabilities are released by other separations from active membership than assumed, there is a gain. If smaller releases, a loss. | 8.1 | (73.2) | (52.9) | 52.7 | 56.6 | 38.8 |
| New Members<br>Additional unfunded accrued liability will produce a loss. | (51.3) | (37.2) | (36.7) | (42.7) | (48.6) | (37.1) |
| Death after Retirement<br>If retirees live longer than assumed, there is a loss. If not as long, a gain. | 72.4 | (10.2) | 15.8 | 12.4 | 23.3 | 30.0 |
| Other<br>Miscellaneous gains and losses resulting from data adjustments, timing of financial transactions, etc. | 81.2 | (1.1) | (145.4) | (81.7) | (0.4) | (24.7) |
| Non-Recurring Items<br>Adjustments for plan amendments, assumption changes, or method changes. | 0.0 | 0.0 | 156.5 | 0.0 | 0.0 | 31.7 |
| Total Gain/(Loss) During Year | $ 99.4 | $ 517.6 | $ 97.7 | $ (436.3) | $ (694.0) | $ (745.0) |

## Short-Term Solvency Test

SERS financing objective is to pay for the pension 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.

Under the level percent of payroll financing by SERS, liabilities for active member contributions on deposit and the liabilities for future benefits to present retirees and beneficiaries will be fully covered by present assets except in rare circumstances. In addition, liabilities for active member benefits earned or to be earned in the future will be partially covered by the remainder of present assets. Generally, if the system has been using level cost financing, the funded portion of active member benefits will increase over time.

| | Aggregate Accrued Liabilities for *(in millions)* | | | | Portion of Accrued Liabilities Covered by Reported Asset | | |
|---|---|---|---|---|---|---|---|
| June 30 | (1) Active Member Contributions | (2) Retired Members & Beneficiaries | (3) Active Members (Employer Portion) | (4) Actuarial Value of Assets | (1) | (2) | (3) |
| 2008 | $2,291 | $6,873 | $4,898 | $11,372 | 100% | 100% | 45% |
| 2007 | 2,180 | 6,413 | 4,710 | 10,640 | 100 | 100 | 44 |
| 2006 | 2,064 | 6,006 | 4,557 | 9,542 | 100 | 100 | 32 |
| 2005 | 1,943 | 5,551 | 4,467 | 8,893 | 100 | 100 | 31 |
| 2004 | 1,785 | 5,173 | 4,293 | 8,667 | 100 | 100 | 40 |
| 2003 | 1,643 | 4,881 | 4,110 | 8,772 | 100 | 100 | 55 |

# Health Care

## Summary of Actuarial Assumptions and Methods

Governmental Accounting Standards Board Statements 43 and 45 require actuarial valuations of retiree medical and other postemployment benefit plans.

**Funding Method** The medical and drug benefits of the plan are determined using the entry age normal actuarial cost method with the normal cost rate determined as a level percentage of payroll. GASB requires the discount rate used to value a plan be based on the likely return of the assets held in trust to pay benefits. The discount rate used in this valuation is 5.25%.

**Contributions** Gains and losses are reflected in the unfunded accrued liability that is amortized by regular annual contributions as a level percentage of payroll within a 30-year period, on the assumption that payroll will increase 4.00% annually. The assumptions recommended by the actuary are, in the aggregate, reasonably related to the experience under the plan and to reasonable expectations of anticipated experience under the plan and meet the parameters for the disclosures under GASB 43 and 45. The valuation indicates that the Annual Required Contribution (ARC) required to actuarially fund the plan is 13.41% of active payroll payable for the fiscal year ending June 30, 2009. Any net claims or premiums paid for retiree health care are considered contributions toward the ARC.

| Year Ended | Annual Required Contribution (ARC) (a) | Employer Contribution (b) | Retiree Drug Subsidy (RDS) Contribution (c) | Total Contribution (d) = (b) + (c) | Percentage of ARC Contributed (d) / (a) |
|---|---|---|---|---|---|
| June 30, 2008 | $307,874,094 | $158,393,761 | $21,953,659 | $180,347,420 | 58.6% |
| June 30, 2007 | 299,379,524 | 170,948,274 | 20,202,965 | 191,151,239 | 63.8% |

**Asset Valuation Method** 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 sizeable and persistent, a change is made to the actuarial assumptions.

**Economic Assumptions** The following economic assumptions were used in the actuarial valuation as of June 30, 2008.

- **Investment Return** Net after all plan expenses, the return on investments are compounded annually at 5.25%.
- **Inflation Rate** The inflation assumption was 3.5% per year. The real rate of return is the portion of total investment return which is more than the inflation rate. Considering inflation recognition of 3.5%, the 5.25% investment return rate translates to an assumed real rate of return of 1.75%.
- **Medical Trend Assumption** Initially health care cost increase of 11%, decreasing gradually to 5.5% in years 2012 through 2014.

| Calendar Year | Prescription Drugs | Indemnity / PPO | HMO* |
|---|---|---|---|
| 2008 | 11.00% | 10.00% | 9.50% |
| 2009 | 10.00 | 9.00 | 8.50 |
| 2010 | 9.00 | 8.00 | 7.50 |
| 2011 | 8.00 | 7.00 | 6.50 |
| 2012 | 7.00 | 6.00 | 5.50 |
| 2013 | 6.00 | 5.50 | 5.50 |
| 2014 and beyond | 5.50 | 5.50 | 5.50 |

**Non-Economic Assumptions**

- **Age related morbidity** Per capita costs are adjusted to reflect expected cost changes related to age. The increase to the net incurred claims was assumed to be:

| Participant Age | Annual increase Male | Annual increase Female |
|---|---|---|
| 41 - 45 | 2.50% | 1.25% |
| 46 - 50 | 2.60 | 1.30 |
| 51 - 55 | 3.20 | 1.60 |
| 56 - 60 | 3.40 | 1.70 |
| 61 - 65 | 3.70 | 1.85 |
| 66 - 70 | 3.20 | 1.60 |
| 71 - 75 | 2.40 | 1.20 |
| 76 - 80 | 1.80 | 0.90 |
| 81 - 85 | 1.30 | 0.65 |

- **Anticipated Plan Participation** Fifty percent of male retirees will choose spouse coverage, while only forty percent of female retirees will choose spousal coverage.

*100% of disabled retirees are assumed to participate. 50% of members retiring from inactive status are assumed to participate.

| Years of Service at Retirement* | Member Participation |
|---|---|
| 10 - 14 | 25.00% |
| 15 - 19 | 45.00 |
| 20 - 24 | 70.00 |
| 25 - 29 | 75.00 |
| 30 - 34 | 80.00 |
| 30 and over | 90.00 |

- **Death after Retirement** Assumed rates are as follows:

**Annual Rates of Postretirement Death**

| Age | Healthy Male | Healthy Female | Disabled Male | Disabled Female |
|---|---|---|---|---|
| 20 | 0.048% | 0.028% | 2.104% | 1.826% |
| 30 | 0.078 | 0.033 | 2.204 | 1.958 |
| 40 | 0.100 | 0.065 | 2.304 | 2.090 |
| 50 | 0.233 | 0.131 | 2.404 | 2.222 |
| 60 | 0.709 | 0.386 | 3.906 | 2.366 |
| 70 | 2.173 | 1.271 | 4.861 | 2.601 |
| 80 | 5.586 | 3.536 | 7.812 | 5.547 |

## Actuarial Accrued Liabilities

The results of the computed actuarial accrued liabilities, using the entry age normal actuarial cost method, are disclosed in the schedule to the right.

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**ACTUARIAL ACCRUED LIABILITIES AS OF JUNE 30, 2008**

| | |
|---|---|
| Present value of benefits payable on account of present retired members and beneficiaries | $2,109,329,171 |
| Present value of benefits payable on account of active members | 4,811,860,442 |
| Present value of benefits payable on account of deferred vested members | 38,118,389 |
| Total liabilities | $6,959,308,002 |

# STATISTICAL SECTION

## Statistical Section

The objectives of the statistical section are to provide additional historical perspective, context, and relevant details to assist readers in using information in the financial statements, notes to the financial statements, and required supplementary information in order to understand and assess the System's overall financial condition. In support of these objectives, SERS has implemented GASB Statement 44, *Economic Condition Reporting: The Statistical Section*.

The schedules and graphs beginning on page 75 show financial trend information about the growth of SERS' assets for the past 10 years. These schedules provide detailed information about the trends of key sources of additions and deductions to the System's assets, which assist in providing a context framing how SERS' financial position has changed over time. The financial trend schedules presented are:

- Net Assets by Fund
- Changes in Net Assets
- Benefit and Refund Deductions from Net Assets by Type

The schedules beginning on page 82 show demographic and economic information. This information is designed to assist in understanding the environment in which SERS operates. The demographic and economic information and the operating information presented include:

- Employer and Employee Contribution Rates
- Demographics of Retired and Active Members
- Retired Members by Type of Benefit
- Principal Participating Employers
- Average Benefit Payments

## Net Assets by Fund

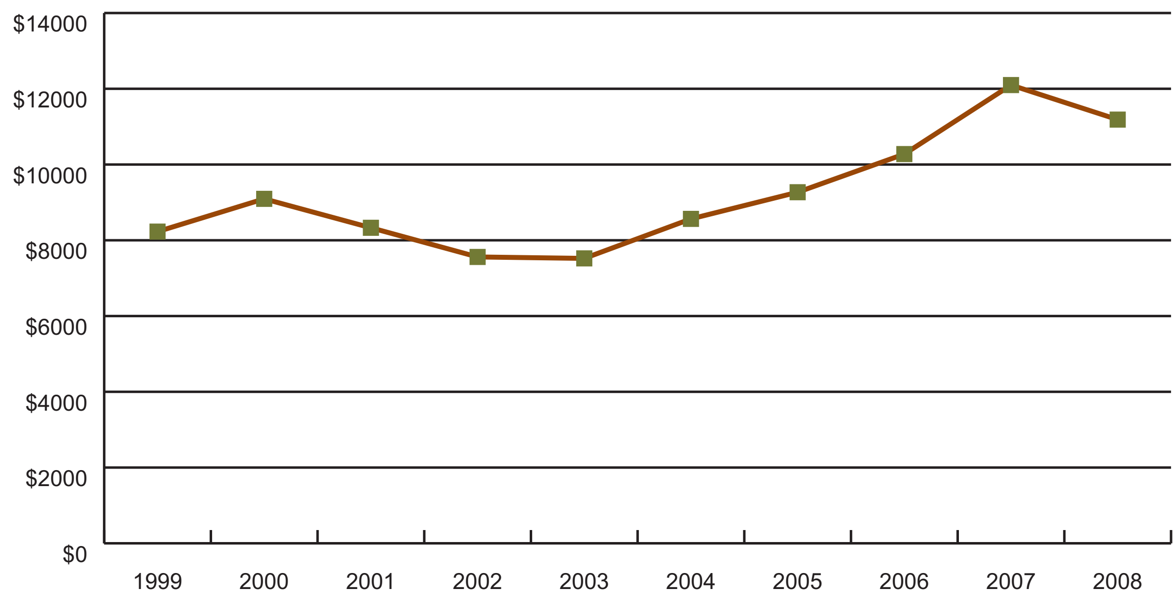
Last ten years

| | Pension Trust Fund | Medicare B Fund | Death Benefit Fund | QEBA Fund | Health Care Fund | Total Net Assets |
|---|---|---|---|---|---|---|
| 2008 | $10,646,564,348 | $124,627,144 | $22,278,877 | $69,717 | $392,680,731 | $11,186,220,817 |
| 2007 | 11,546,062,014 | 139,902,535 | 25,270,739 | 4,899 | 386,355,370 | 12,097,595,557 |
| 2006 | 9,833,948,677 | 124,178,222 | 22,076,462 | 7,429 | 295,561,933 | 10,275,772,723 |
| 2005 | 8,866,129,871 | 114,696,809 | 20,758,872 | 36,868 | 267,482,155 | 9,269,104,575 |
| 2004 | 8,133,054,479 | 111,221,576 | 20,306,868 | 11,052** | 300,860,704 | 8,565,454,679 |
| 2003 | 7,096,479,273 | 103,481,031 | 18,897,237 | | 303,556,610 | 7,522,414,151 |
| 2002 | 7,091,939,175 | 111,154,470 | 20,340,023 | | 335,233,043 | 7,558,666,711 |
| 2001 | 7,861,021,652 | 128,691,592 | 23,610,466 | | 315,713,869 | 8,329,037,579 |
| 2000 | 8,841,805,985* | | | | 252,308,305 | 9,094,114,290 |
| 1999 | 8,040,823,067* | | | | 187,969,874 | 8,228,792,941 |

*Includes Pension, Medicare B, and Death Benefit Funds

** The Qualified Excess Benefit Arrangement was established January 2003; funding commenced November 2003.

**Total Net Assets** *(in millions)*




STATISTICAL SECTION

## Changes in Net Assets

Last ten fiscal years

| PENSION TRUST FUND* | 2008 | 2007 | 2006 | 2005 |
|---|---|---|---|---|
| ADDITIONS | | | | |
| Employer Contributions | $ 259,394,723 | $ 232,846,344 | $ 234,875,166 | $ 255,633,456 |
| Employee Contributions | 284,910,486 | 276,759,362 | 272,615,865 | 262,265,550 |
| Other Income | – | – | 610,054 | – |
| Total Investment Income/(Loss), Net | (731,527,482) | 1,863,226,769 | 1,080,786,996 | 793,539,701 |
| TOTAL ADDITIONS | (187,222,273) | 2,372,832,475 | 1,588,888,081 | 1,311,438,707 |
| DEDUCTIONS | | | | |
| Pension Benefits | 650,991,508 | 606,753,367 | 569,027,766 | 533,714,925 |
| Refunds and Lump Sum Payments | 38,907,918 | 33,638,741 | 31,037,063 | 27,112,818 |
| Net Transfers to other Ohio Systems | 4,723,303 | 2,873,755 | 3,587,709 | 155,635 |
| Administrative Expenses | 17,652,664 | 17,453,275 | 17,416,737 | 17,379,937 |
| TOTAL DEDUCTIONS | 712,275,393 | 660,719,138 | 621,069,275 | 578,363,315 |
| Net increase (decrease) | (899,497,666) | 1,712,113,337 | 967,818,806 | 733,075,392 |
| Net assets held in trust: | | | | |
| Balance, Beginning of Year | 11,546,062,014 | 9,833,948,677 | 8,866,129,871 | 8,133,054,479 |
| **Balance, End of Year** | **$10,646,564,348** | **$11,546,062,014** | **$9,833,948,677** | **$8,866,129,871** |

| HEALTH CARE FUND | 2008 | 2007 | 2006 | 2005 |
|---|---|---|---|---|
| ADDITIONS | | | | |
| Employer Contributions | $ 158,393,761 | $ 170,948,274 | $ 157,404,134 | $ 126,355,575 |
| Other Income | 94,660,706 | 91,823,048 | 70,152,335 | 40,595,447 |
| Total Investment Income/(Loss), Net | (18,289,836) | 49,307,490 | 30,524,217 | 19,976,256 |
| TOTAL ADDITIONS | 234,764,631 | 312,078,812 | 258,080,686 | 186,927,278 |
| DEDUCTIONS | | | | |
| Health Care Expenses | 226,436,827 | 219,438,662 | 228,570,748 | 218,816,560 |
| Administrative Expenses | 2,002,443 | 1,846,713 | 1,430,160 | 1,489,267 |
| TOTAL DEDUCTIONS | 228,439,270 | 221,285,375 | 230,000,908 | 220,305,827 |
| Net increase (decrease) | 6,325,361 | 90,793,437 | 28,079,778 | (33,378,549) |
| Net assets held in trust: | | | | |
| Balance, Beginning of Year | 386,355,370 | 295,561,933 | 267,482,155 | 300,860,704 |
| **Balance, End of Year** | **$ 392,680,731** | **$ 386,355,370** | **$ 295,561,933** | **$ 267,482,155** |

* In fiscal year 2000 the ending balance does not equal the fiscal year 2001 beginning balance due to splitting out the Medicare B and Death Benefit Funds.

| 2004 | 2003 | 2002 | 2001 | 2000** | 1999** |
|---|---|---|---|---|---|
| $ 213,736,648 | $ 182,919,583 | $ 102,321,473 | $ 90,091,402 | $ 116,055,089 | $ 143,217,951 |
| 258,131,243 | 225,014,540 | 210,098,081 | 192,563,026 | 179,646,558 | 166,864,847 |
| – | – | – | – | 256,219 | 303,714 |
| 1,098,850,856 | 91,598,224 | (619,870,709) | (605,415,851) | 931,723,006 | 851,060,298 |
| 1,570,718,747 | 499,532,347 | (307,451,155) | (322,761,423) | 1,227,680,872 | 1,161,446,810 |
| 492,405,489 | 456,834,182 | 425,754,214 | 397,234,511 | 387,764,962 | 380,874,308 |
| 22,090,604 | 19,575,616 | 19,212,728 | 21,817,451 | 22,332,580 | 22,177,533 |
| 2,244,495 | 917,730 | (365,587) | 1,538,082 | 1,185,804 | 577,367 |
| 17,402,953 | 17,664,721 | 17,029,967 | 14,975,992 | 15,414,608 | 14,252,259 |
| 534,143,541 | 494,992,249 | 461,631,322 | 435,566,036 | 426,697,954 | 417,881,467 |
| 1,036,575,206 | 4,540,098 | (769,082,477) | (758,327,459) | 800,982,918 | 743,565,343 |
| 7,096,479,273 | 7,091,939,175 | 7,861,021,652 | 8,619,349,111* | 8,040,823,067 | 7,297,257,724 |
| **$8,133,054,479** | **$7,096,479,273** | **$7,091,939,175** | **$7,861,021,652** | $**8,841,805,985*** | **$8,040,823,067** |

| 2004 | 2003 | 2002 | 2001 | 2000 | 1999 |
|---|---|---|---|---|---|
| $ 159,550,942 | $ 171,313,952 | $ 218,967,729 | $ 236,898,701 | $ 187,074,371 | $ 140,009,450 |
| 27,947,708 | 15,579,621 | 13,496,715 | 10,693,490 | 9,652,065 | 12,706,475 |
| 34,640,957 | 3,189,950 | (15,550,768) | (11,328,226) | 18,262,540 | 14,272,044 |
| 222,139,607 | 190,083,523 | 216,913,676 | 236,263,965 | 214,988,976 | 166,987,969 |
| 223,443,805 | 220,510,358 | 196,443,492 | 172,133,424 | 150,348,405 | 139,087,459 |
| 1,391,708 | 1,249,598 | 951,010 | 724,977 | 302,140 | 239,007 |
| 224,835,513 | 221,759,956 | 197,394,502 | 172,858,401 | 150,650,545 | 139,326,466 |
| (2,695,906) | (31,676,433) | 19,519,174 | 63,405,564 | 64,338,431 | 27,661,503 |
| 303,556,610 | 335,233,043 | 315,713,869 | 252,308,305 | 187,969,874 | 160,308,371 |
| **$ 300,860,704** | **$ 303,556,610** | **$ 335,233,043** | **$ 315,713,869** | **$ 252,308,305** | **$ 187,969,874** |

** During fiscal years 1999 through 2000, Medicare B and Death Benefit Funds were included in the Pension Trust Fund.

## Changes in Net Assets (continued)

Last ten fiscal years

| MEDICARE B FUND* | 2008 | 2007 | 2006 | 2005 |
|---|---|---|---|---|
| ADDITIONS | | | | |
| Employer Contributions | $ 18,337,305 | $ 18,450,617 | $ 20,535,685 | $ 17,735,032 |
| Other Income | – | – | 62,510 | – |
| Total Investment Income/(Loss), Net | (8,388,671) | 22,332,826 | 13,538,975 | 10,290,424 |
| TOTAL ADDITIONS | 9,988,634 | 40,783,443 | 34,137,170 | 28,025,456 |
| DEDUCTIONS | | | | |
| Pension Benefits | 25,258,432 | 25,055,794 | 24,652,637 | 24,547,223 |
| Administrative Expenses | 5,593 | 3,336 | 3,120 | 3,000 |
| TOTAL DEDUCTIONS | 25,264,025 | 25,059,130 | 24,655,757 | 24,550,223 |
| Net increase (decrease) | (15,275,391) | 15,724,313 | 9,481,413 | 3,475,233 |
| Net assets held in trust: | | | | |
| Balance, Beginning of Year | 139,902,535 | 124,178,222 | 114,696,809 | 111,221,576 |
| **Balance, End of Year** | **$124,627,144** | **$139,902,535** | **$124,178,222** | **$114,696,809** |

| DEATH BENEFIT FUND* | 2008 | 2007 | 2006 | 2005 |
|---|---|---|---|---|
| ADDITIONS | | | | |
| Employer Contributions | $ 835,348 | $ 1,070,630 | $ 1,054,246 | $ 759,058 |
| Other Income | – | – | 6,889 | – |
| Total Investment Income/(Loss), Net | (1,600,480) | 4,265,549 | 2,571,377 | 1,964,827 |
| TOTAL ADDITIONS | (765,132) | 5,336,179 | 3,632,512 | 2,723,885 |
| DEDUCTIONS | | | | |
| Pension Benefits | 2,185,460 | 2,083,437 | 2,259,722 | 2,217,881 |
| Administrative Expenses | 41,270 | 58,465 | 55,200 | 54,000 |
| TOTAL DEDUCTIONS | 2,226,730 | 2,141,902 | 2,314,922 | 2,271,881 |
| Net increase (decrease) | (2,991,862) | 3,194,277 | 1,317,590 | 452,004 |
| Net assets held in trust: | | | | |
| Balance, Beginning of Year | 25,270,739 | 22,076,462 | 20,758,872 | 20,306,868 |
| **Balance, End of Year** | **$22,278,877** | **$25,270,739** | **$22,076,462** | **$20,758,872** |

* Fiscal Years 1998 through 2000 Medicare B and Death Benefit Funds were included in the Pension Trust Fund.

| QEBA FUND** | 2008 | 2007 | 2006 | 2005 |
|---|---|---|---|---|
| ADDITIONS | | | | |
| Employer Contributions | $172,260 | $ 82,745 | $ 41,850 | $ 36,026 |
| Other Income | – | – | – | – |
| Total Investment Income/(Loss), Net | 1,129 | 32 | 9 | 2 |
| TOTAL ADDITIONS | 173,389 | 82,777 | 41,859 | 36,028 |
| DEDUCTIONS | | | | |
| Pension Benefits | 107,772 | 85,106 | 71,298 | 9,572 |
| Administrative Expenses | 799 | 201 | – | 640 |
| TOTAL DEDUCTIONS | 108,571 | 85,307 | 71,298 | 10,212 |
| Net increase (decrease) | 64,818 | (2,530) | (29,439) | 25,816 |
| Net assets held in trust: | | | | |
| Balance, Beginning of Year | 4,899 | 7,429 | 36,868 | 11,052 |
| **Balance, End of Year** | **$69,717** | **$ 4,899** | **$ 7,429** | **$ 36,868** |

** The Qualified Excess Benefit Arrangement (QEBA) was established January 2003; funding commenced November 2003.

| 2004 | 2003 | 2002 | 2001 | 2000 | 1999 |
|---|---|---|---|---|---|
| $ 17,390,201 | $ 15,609,515 | $ 16,178,916 | $ 3,667,340 | | |
| – | – | – | – | | |
| 14,996,522 | 872,761 | (9,764,147) | (13,761,654) | | |
| 32,386,723 | 16,482,276 | 6,414,769 | (10,094,314) | | |
| 24,307,188 | 23,826,601 | 23,596,306 | 56,480,052 | | |
| 338,990 | 329,114 | 355,585 | 266,749 | | |
| 24,646,178 | 24,155,715 | 23,951,891 | 56,746,801 | | |
| 7,740,545 | (7,673,439) | (17,537,122) | (66,841,115) | | |
| 103,481,031 | 111,154,470 | 128,691,592 | 195,532,707 | | |
| **$111,221,576** | **$103,481,031** | **$111,154,470** | **$128,691,592** | | |

| 2004 | 2003 | 2002 | 2001 | 2000 | 1999 |
|---|---|---|---|---|---|
| $ 744,272 | $ 471,868 | $ 456,274 | $ 649,974 | | |
| – | – | – | – | | |
| 2,912,708 | 158,596 | (1,771,920) | (1,913,983) | | |
| 3,656,980 | 630,464 | (1,315,646) | (1,264,009) | | |
| 2,200,147 | 2,027,422 | 1,905,283 | 2,013,003 | | |
| 47,202 | 45,828 | 49,514 | 36,689 | | |
| 2,247,349 | 2,073,250 | 1,954,797 | 2,049,692 | | |
| 1,409,631 | (1,442,786) | (3,270,443) | (3,313,701) | | |
| 18,897,237 | 20,340,023 | 23,610,466 | 26,924,167 | | |
| **$20,306,868** | **$18,897,237** | **$20,340,023** | **$23,610,466** | | |

| 2004 | 2003 | 2002 | 2001 | 2000 | 1999 |
|---|---|---|---|---|---|
| $ 18,600 | | | | | |
| – | | | | | |
| – | | | | | |
| 18,600 | | | | | |
| 6,259 | | | | | |
| 1,289 | | | | | |
| 7,548 | | | | | |
| 11,052 | | | | | |
| – | | | | | |
| **$ 11,052** | | | | | |

## Benefit and Refund Deductions from Net Assets by Type

Last ten fiscal years

| PENSION BENEFITS | 2008 | 2007 | 2006 | 2005 |
|---|---|---|---|---|
| Service Retirement | $554,521,059 | $514,824,466 | $481,929,589 | $450,815,396 |
| Disability Retirement | 69,632,988 | 66,278,496 | 62,669,473 | 59,656,369 |
| Survivor Benefits | 26,837,461 | 25,650,405 | 24,428,704 | 23,243,160 |
| **Total Pension Benefits** | $650,991,508 | $606,753,367 | $569,027,766 | $533,714,925 |
| | | | | |
| **Refunds** | | | | |
| Separation | $38,147,667 | $ 33,316,422 | $ 29,065,065 | $ 26,667,001 |
| Beneficiaries | 760,251 | 322,319 | 1,971,998 | 445,817 |
| **Total Refunds** | $38,907,918 | $ 33,638,741 | $ 31,037,063 | $ 27,112,818 |

| MEDICARE B REIMBURSEMENT* | 2008 | 2007 | 2006 | 2005 |
|---|---|---|---|---|
| Service Retirement | $ 22,542,191 | $ 22,350,668 | $ 22,007,666 | $ 21,896,392 |
| Disability Retirement | 1,334,470 | 1,317,953 | 1,278,217 | 1,245,341 |
| Survivor Benefits | 1,381,771 | 1,387,173 | 1,366,754 | 1,405,490 |
| **Total Medicare B Reimbursement** | $ 25,258,432 | $ 25,055,794 | $ 24,652,637 | $ 24,547,223 |

| DEATH BENEFITS | 2008 | 2007 | 2006 | 2005 |
|---|---|---|---|---|
| Service | $ 1,965,949 | $ 1,880,256 | $ 2,062,198 | $ 2,018,318 |
| Disability | 219,511 | 203,181 | 197,524 | 199,563 |
| **Total Death Benefits** | $ 2,185,460 | $ 2,083,437 | $ 2,259,722 | $ 2,217,881 |

| HEALTH CARE EXPENSES | 2008 | 2007 | 2006 | 2005 |
|---|---|---|---|---|
| Medical | $129,186,181 | $128,160,112 | $131,562,641 | $113,102,587 |
| Prescription | 95,603,763 | 89,957,159 | 95,589,547 | 105,195,298 |
| Other | 1,646,883 | 1,321,391 | 1,418,560 | 518,675 |
| **Total Health Care Expenses** | $226,436,827 | $219,438,662 | $228,570,748 | $218,816,560 |

* Prior to fiscal year 2001 Medicare B reimbursement expenses were included with the Pension Trust Fund on the Changes in Plan Net Assets.

| | | | | | |
|---|---|---|---|---|---|
| 2004 | 2003 | 2002 | 2001 | 2000 | 1999 |
| $413,743,800 | $382,324,194 | $355,422,159 | $330,712,415 | $321,397,961 | $317,125,829 |
| 56,956,255 | 53,859,560 | 51,081,315 | 48,349,429 | 46,244,407 | 44,116,363 |
| 21,705,434 | 20,650,428 | 19,250,740 | 18,172,667 | 18,315,432 | 18,127,793 |
| $492,405,489 | $456,834,182 | $425,754,214 | $397,234,511 | $385,957,800 | $379,369,985 |
| | | | | | |
| $ 21,496,787 | $ 19,269,813 | $ 18,483,724 | $ 18,850,323 | | |
| 593,817 | 305,803 | 729,004 | 2,967,128 | | |
| $ 22,090,604 | $ 19,575,616 | $ 19,212,728 | $ 21,817,451 | $ 22,332,580 | $ 22,177,533 |

| | | | | | |
|---|---|---|---|---|---|
| 2004 | 2003 | 2002 | 2001** | 2000 | 1999 |
| $ 21,742,514 | $ 21,342,363 | $ 21,135,767 | $ 50,969,689 | | |
| 1,216,754 | 1,163,920 | 1,155,196 | 2,554,641 | | |
| 1,347,920 | 1,320,318 | 1,305,343 | 2,955,722 | | |
| $ 24,307,188 | $ 23,826,601 | $ 23,596,306 | $ 56,480,052 | | |

| | | | | | |
|---|---|---|---|---|---|
| 2004 | 2003 | 2002 | 2001 | 2000 | 1999 |
| $ 1,992,963 | $ 1,813,287 | $ 1,693,283 | $ 1,794,722 | $ 1,640,679 | $ 1,377,213 |
| 207,184 | 214,135 | 212,000 | 218,281 | 166,483 | 127,110 |
| $ 2,200,147 | $ 2,027,422 | $ 1,905,283 | $ 2,013,003 | $ 1,807,162 | $ 1,504,323 |

| | | | | | |
|---|---|---|---|---|---|
| 2004 | 2003 | 2002 | 2001 | 2000 | 1999 |
| $125,213,303 | $119,676,586 | $107,055,941 | $ 94,577,874 | $ 85,170,510 | $ 81,961,127 |
| 97,155,916 | 99,511,288 | 87,642,652 | 76,695,342 | 64,810,387 | 56,770,351 |
| 1,074,586 | 1,322,484 | 1,744,899 | 860,208 | 367,508 | 355,981 |
| $223,443,805 | $220,510,358 | $196,443,492 | $172,133,424 | $150,348,405 | $139,087,459 |

** Legislation provided for a retroactive Medicare B reimbursement.

## Employer and Employee Contribution Rates

Last ten fiscal years

| Fiscal Year | Employee Rate | Employer Rate: Pension | Medicare B | Death Benefit | Health Care | Total |
|---|---|---|---|---|---|---|
| 2008 | 10% | 9.13% | 0.66% | 0.03% | 4.18% | 14% |
| 2007 | 10 | 9.96 | 0.68 | 0.04 | 3.32 | 14 |
| 2006 | 10 | 9.76 | 0.78 | 0.04 | 3.42 | 14 |
| 2005 | 10 | 9.84 | 0.70 | 0.03 | 3.43 | 14 |
| 2004 | 10 | 8.36 | 0.70 | 0.03 | 4.91 | 14 |
| 2003 | 9 | 7.46 | 0.69 | 0.02 | 5.83 | 14 |
| 2002 | 9 | 5.83 | 0.71 | 0.02 | 7.44 | 14 |
| 2001 | 9 | 3.47 | 0.71 | 0.02 | 9.80 | 14 |
| 2000 | 9 | 5.55 | | | 8.45 | 14 |
| 1999 | 9 | 7.70 | | | 6.30 | 14 |

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

## Demographics of Retired and Active Members

Last ten fiscal years

**Average Service Retirement**

| Year Ended June 30 | Service Credit | Monthly Amount | Age | Salary |
|---|---|---|---|---|
| 2008 | 22.214 | $1,095.15 | 62.54 | $ 27,815 |
| 2007 | 22.090 | 1,109.13 | 62.59 | 27,827 |
| 2006 | 22.302 | 1,041.03 | 62.96 | 26,007 |
| 2005 | 22.568 | 1,041.85 | 62.57 | 26,040 |
| 2004 | 22.452 | 957.36 | 62.44 | 24,132 |
| 2003 | 22.189 | 915.76 | 62.20 | 22,965 |
| 2002 | 22.414 | 892.11 | 62.28 | 22,065 |
| 2001 | 22.128 | 851.00 | 62.31 | 21,125 |
| 2000 | 21.957 | 761.47 | 63.51 | 20,230 |
| 1999 | 21.505 | 716.38 | 63.68 | 19,419 |

**Average Disability Retirement**

| Year Ended June 30 | Service Credit | Monthly Amount | Age | Salary |
|---|---|---|---|---|
| 2008 | 15.000 | $1,269.00 | 53.00 | $ 28,538 |
| 2007 | 16.000 | 1,239.00 | 53.00 | 27,097 |
| 2006 | 16.000 | 1,252.00 | 53.00 | 27,093 |
| 2005 | 20.417 | 1,177.93 | 53.27 | 25,960 |
| 2004 | 20.780 | 1,090.08 | 52.45 | 24,096 |
| 2003 | 21.439 | 1,126.90 | 52.72 | 24,557 |
| 2002 | 21.210 | 1,047.52 | 52.24 | 22,637 |
| 2001 | 20.124 | 1,123.46 | 52.35 | 21,668 |
| 2000 | 16.058 | 1,004.00 | 55.85 | 21,807 |
| 1999 | 16.014 | 897.75 | 56.28 | 20,252 |

# Demographics of Retired and Active Members

Fiscal Year 2008

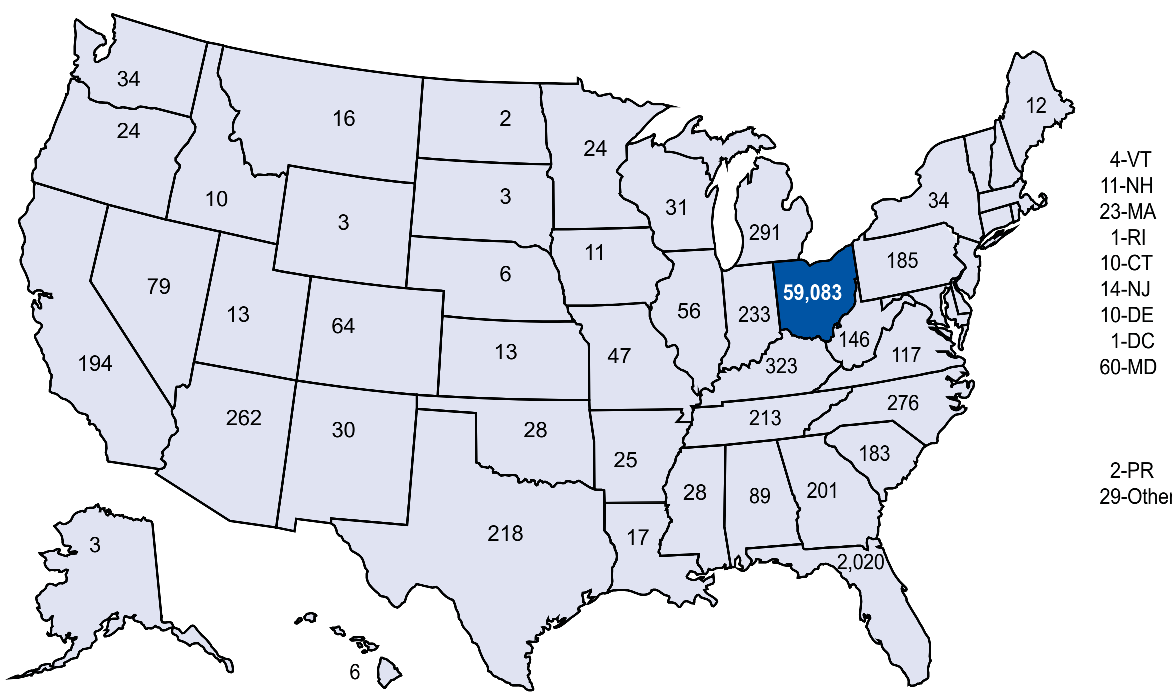
### Active Members

| | Active Members | | | Percentage of Distribution | | |
|---|---|---|---|---|---|---|
| **Ages** | **Male** | **Female** | **Total** | **Male** | **Female** | **Total** |
| Under 20 | 418 | 330 | 748 | 0.3% | 0.3% | 0.6% |
| 20 to 29 | 5,010 | 5,718 | 10,728 | 4.0 | 4.6 | 8.6 |
| 30 to 39 | 5,451 | 12,416 | 17,867 | 4.4 | 10.0 | 14.4 |
| 40 to 49 | 9,302 | 30,070 | 39,372 | 7.5 | 24.2 | 31.7 |
| 50 to 54 | 5,534 | 16,836 | 22,370 | 4.4 | 13.5 | 17.9 |
| 55 to 59 | 4,483 | 12,582 | 17,065 | 3.6 | 10.1 | 13.7 |
| 60 to 64 | 3,072 | 6,891 | 9,963 | 2.5 | 5.6 | 8.1 |
| 65 to 69 | 1,490 | 2,593 | 4,083 | 1.2 | 2.1 | 3.3 |
| 70 and over | 794 | 1,380 | 2,174 | 0.6 | 1.1 | 1.7 |
| | 35,554 | 88,816 | 124,370 | 28.5% | 71.5% | 100.0% |

### Retired Members

| | Retirees & Beneficiaries | | | Percentage of Distribution | | |
|---|---|---|---|---|---|---|
| **Ages** | **Male** | **Female** | **Total** | **Male** | **Female** | **Total** |
| Under 55 | 966 | 1,179 | 2,145 | 1.5% | 1.8% | 3.3% |
| 55 to 59 | 1,055 | 1,684 | 2,739 | 1.6 | 2.6 | 4.2 |
| 60 to 64 | 1,768 | 5,305 | 7,073 | 2.7 | 8.2 | 10.9 |
| 65 to 69 | 2,742 | 8,431 | 11,173 | 4.2 | 13.0 | 17.2 |
| 70 to 74 | 3,066 | 8,906 | 11,972 | 4.7 | 13.8 | 18.5 |
| 75 to 79 | 2,800 | 8,104 | 10,904 | 4.3 | 12.5 | 16.8 |
| 80 to 84 | 2,217 | 7,192 | 9,409 | 3.4 | 11.1 | 14.5 |
| 85 to 89 | 1,341 | 4,941 | 6,282 | 2.1 | 7.7 | 9.8 |
| 90 to 94 | 457 | 2,067 | 2,524 | 0.7 | 3.2 | 3.9 |
| 95 to 99 | 75 | 467 | 542 | 0.1 | 0.7 | 0.8 |
| 100 and over | 6 | 49 | 55 | 0.0 | 0.1 | 0.1 |
| | 16,493 | 48,325 | 64,818 | 25.3% | 74.7% | 100.0% |

### Benefit Recipients by State



## Retired Members by Type of Benefit

| Amount of Monthly Benefit | Total | Service | Disability | Survivor |
|---|---|---|---|---|
| $ 1 - $ 250 | 20,258 | 17,637 | 770 | 1,851 |
| 251 - 500 | 14,256 | 11,994 | 1,034 | 1,228 |
| 501 - 750 | 9,780 | 8,184 | 979 | 617 |
| 751 - 1,000 | 6,458 | 5,424 | 789 | 245 |
| 1,001 - 1,500 | 7,300 | 6,125 | 978 | 197 |
| 1,501 - 2,000 | 3,355 | 2,849 | 437 | 69 |
| over 2,000 | 3,203 | 2,823 | 328 | 52 |
| | 64,610 | 55,036 | 5,315 | 4,259 |
| Average Monthly Benefit | | $ 838 | $1,089 | $ 534 |
| Average Age | | 74.5 | 64.0 | 70.6 |

## Retirees, Spouses, and Dependents Receiving Health Insurance Benefits as of June 30, 2008

| Attained Age | Number of Males | Number of Females | Total Number |
|---|---|---|---|
| Under 30 | 189 | 190 | 379 |
| 30 - 39 | 15 | 16 | 31 |
| 40 - 49 | 157 | 206 | 363 |
| 50 - 59 | 1,138 | 1,614 | 2,752 |
| 60 - 64 | 1,151 | 2,941 | 4,092 |
| 65 - 69 | 2,527 | 5,734 | 8,261 |
| 70 - 74 | 3,456 | 6,745 | 10,201 |
| 75 - 79 | 3,052 | 6,053 | 9,105 |
| 80 - 84 | 2,473 | 6,158 | 8,631 |
| 85 - 89 | 1,538 | 4,527 | 6,065 |
| 90 - 99 | 646 | 2,326 | 2,972 |
| 100 and over | 9 | 43 | 52 |
| | 16,351 | 36,553 | 52,904 |

## Principal Participating Employers

Current fiscal year and eight fiscal years ago

| Participating Schools Name | Fiscal Year 2008 Covered Employee Members | Rank | Percentage of Total System | Fiscal Year 2000 Covered Employee Members | Rank | Percentage of Total System |
|---|---|---|---|---|---|---|
| Columbus City Schools | 3,624 | 1 | 2.91% | 3,845 | 2 | 3.39% |
| Cleveland Metropolitan School District | 3,104 | 2 | 2.50 | 4,378 | 1 | 3.85 |
| Cincinnati Public Schools | 2,626 | 3 | 2.11 | 2,869 | 3 | 2.52 |
| University Of Akron | 2,128 | 4 | 1.71 | 1,257 | 7 | 1.10 |
| Toledo Public Schools | 1,728 | 5 | 1.39 | 2,041 | 4 | 1.79 |
| Akron Public Schools | 1,650 | 6 | 1.33 | 1,615 | 6 | 1.42 |
| Dayton Public Schools | 1,412 | 7 | 1.13 | 1,670 | 5 | 1.47 |
| South-Western City Schools | 1,210 | 8 | 0.97 | 1,029 | 8 | 0.90 |
| Lakota Local Schools | 1,101 | 9 | 0.89 | – | – | – |
| Parma City Schools | 1,053 | 10 | 0.85 | 932 | 10 | 0.82 |
| Canton City Schools | – | – | – | 949 | 9 | 0.83 |
| All other | 104,734 | | 84.21 | 93,226 | | 81.91 |
| Total | 124,370 | | 100.00% | 113,811 | | 100.00% |

In fiscal year 2008 "All other" consisted of:

| | Covered Employee Members | Number of School Districts |
|---|---|---|
| Local School Districts | 37,890 | 373 |
| City School Districts | 44,112 | 184 |
| Educational Service Centers | 7,533 | 59 |
| Exempted Village Districts | 5,426 | 49 |
| Higher Education | 3,338 | 14 |
| Vocational/Technical Schools | 3,091 | 49 |
| Community Schools | 3,080 | 252 |
| Other | 264 | 8 |

## Average Benefit Payments

Last ten fiscal years

| Retirement Effective Dates | Years of Credited Service 5-9 | 10-14 | 15-19 | 20-24 | 25-29 | 30 + |
|---|---|---|---|---|---|---|
| **Period 7/1/07 to 6/30/08** | | | | | | |
| Average Monthly Benefit | $ 209 | $ 373 | $ 635 | $ 969 | $ 1,219 | $ 2,122 |
| Average Final Average Salary | 1,434 | 1,648 | 1,989 | 2,327 | 2,426 | 2,803 |
| Number of Retirees | 356 | 350 | 424 | 530 | 657 | 811 |
| **Period 7/1/06 to 6/30/07** | | | | | | |
| Average Monthly Benefit | $ 202 | $ 415 | $ 632 | $ 938 | $ 1,232 | $ 2,082 |
| Average Final Average Salary | 1,382 | 1,751 | 1,959 | 2,260 | 2,449 | 3,121 |
| Number of Retirees | 344 | 312 | 364 | 417 | 578 | 722 |
| **Period 7/1/05 to 6/30/06** | | | | | | |
| Average Monthly Benefit | $ 188 | $ 368 | $ 629 | $ 849 | $ 1,138 | $ 1,947 |
| Average Final Average Salary | 1,328 | 1,569 | 1,895 | 2,070 | 2,267 | 2,905 |
| Number of Retirees | 288 | 318 | 328 | 403 | 403 | 675 |
| **Period 7/1/04 to 6/30/05** | | | | | | |
| Average Monthly Benefit | $ 179 | $ 363 | $ 600 | $ 847 | $ 1,081 | $ 1,949 |
| Average Final Average Salary | 1,254 | 1,585 | 1,860 | 2,058 | 2,201 | 3,033 |
| Number of Retirees | 253 | 281 | 352 | 382 | 700 | 674 |
| **Period 7/1/03 to 6/30/04** | | | | | | |
| Average Monthly Benefit | $ 168 | $ 370 | $ 572 | $ 809 | $ 1,011 | $ 1,731 |
| Average Final Average Salary | 1,192 | 1,611 | 1,777 | 1,941 | 2,037 | 2,612 |
| Number of Retirees | 207 | 284 | 336 | 318 | 606 | 613 |
| **Period 7/1/02 to 6/30/03** | | | | | | |
| Average Monthly Benefit | $ 148 | $ 317 | $ 552 | $ 755 | $ 983 | $ 1,780 |
| Average Final Average Salary | 1,015 | 1,373 | 1,686 | 1,811 | 1,988 | 2,663 |
| Number of Retirees | 204 | 285 | 328 | 346 | 618 | 533 |
| **Period 7/1/01 to 6/30/02** | | | | | | |
| Average Monthly Benefit | $ 156 | $ 333 | $ 560 | $ 752 | $ 958 | $ 1,653 |
| Average Final Average Salary | 1,057 | 1,368 | 1,690 | 1,747 | 1,895 | 2,426 |
| Number of Retirees | 162 | 313 | 355 | 351 | 666 | 548 |
| **Period 7/1/00 to 6/30/01** | | | | | | |
| Average Monthly Benefit | $ 306 | $ 308 | $ 522 | $ 707 | $ 887 | $ 1,670 |
| Average Final Average Salary | 1,030 | 1,335 | 1,593 | 1,674 | 1,756 | 2,474 |
| Number of Retirees | 190 | 326 | 358 | 399 | 696 | 526 |
| **Period 7/1/99 to 6/30/00** | | | | | | |
| Average Monthly Benefit | $ 238 | $ 287 | $ 483 | $ 677 | $ 805 | $ 1,496 |
| Average Final Average Salary | 995 | 1,270 | 1,562 | 1,690 | 1,685 | 2,322 |
| Number of Retirees | 192 | 356 | 403 | 389 | 780 | 518 |
| **Period 7/1/98 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 |

# PLAN SUMMARY

Photo courtesy of Wayne Fork, SERS Retiree

# Plan Summary

**Purpose**

The School Employees Retirement System of Ohio was established in 1937 by the state legislature to provide retirement and disability benefits for all non-certificated persons employed by the state's 998 school districts and community schools. This purpose is sustained by the member and employer contributions and the income realized from investment of those contributions.

**Administration**

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

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

**Employer Participation**

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

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

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

**Employee Participation**

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

- 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. Examples of covered positions include clerical workers, maintenance personnel, bus drivers, food service workers, playground supervisors, data processing personnel, etc. Two exceptions to the membership requirements are: (1) persons with student status within a school district may choose to become members of SERS; and (2) temporary employees for emergency purposes. Active members have an amount equal to 10.0% of their earnings deducted from their gross salaries for each payroll period. These amounts are then forwarded to SERS by the payroll officer and applied to the member's account at SERS.
- 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.
- 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.
- 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**

Eligibility requirements for retirement depends on when the member began employment. Members may retire from school employment if they have attained one of three combinations of age or service:

| Hired before May 14, 2008 | Hired on or after May 14, 2008 |
| --- | --- |
| 5 years of service and age 60; or | 10 years of service and age 62; or |
| 25 years of service and age 55; or | 25 years of service and age 60; or |
| 30 years of service at any age. | 30 years of service at age 55. |

**Service Credit**

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

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

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

- Military - A member may purchase up to five years of credit in SERS for active service in the armed forces of the U.S. There is no restriction placed on time elapsed between school employment and the time spent in the military. A member may purchase additional service credit if the military service includes prisoner of war time. Purchased credit may not be greater than the member's actual Ohio contributing credit.
- Federal, Other State, or School Service – The member may purchase credit for service rendered in a school or government position outside the State of Ohio. The service cannot be greater than the member's contributing service nor can it exceed five years.
- Refunded Service – Service lost due to the payment of a refund may be restored after the member has returned to work and accrued 1.5 years of service covered by SERS, State Teachers Retirement System of Ohio (STRS), Ohio Public Employees Retirement System (OPERS), Ohio Police & Fire Pension Fund (OP&F), or State Highway Patrol Retirement System (SHPRS). An interest charge is payable in addition to the restored funds.
- Compulsory Service – This is service for which the member should have made contributions while working, but did not, for whatever reason.
- Optional Service – This is service during a period when the member was given a choice of contributing. The member must pay back contributions and may be responsible for the employer's share.
- Leave of Absence – A member returning to work after a period of authorized leave may purchase service credit for the period involved. An employer contribution is required for this service to be granted, but the employer is under no obligation to make payment.

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

**Early Retirement Incentive (ERI)**

Employers can 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 can purchase up to five years of such credit.

**Benefit Calculation**

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

The benefit amount is calculated in this way:

> The final average salary amount is multiplied by 2.2% to determine the value of a year of service credit. The formula is 2.5% for credit over 30 years. This value cannot be less than $86. If it is, $86 is used. The value is then multiplied

by the number of years of service credit. This calculation yields the annual retirement benefit amount for a person who is 65 at retirement time.

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

**Retirement Options**

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

**Disability Retirement**

A member who is prevented from performing regular duties on the job after incurring an injury or illness can 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 for life under the old plan, subject to re-examination, and may be converted to service retirement under the new plan.

**Death Benefits**

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

**Survivor Benefits**

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

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

**Health Care Coverage**

SERS offers comprehensive health care coverage, including prescription drugs, for qualified service and disability retirees and dependents, and survivor benefit recipients. Participants may choose from one or more health care plans depending on their enrollment status in Medicare and their residence. Once a plan has been chosen, it may not be changed until the next open enrollment period. A prescription drug program is also provided and prescriptions may be filled at retail pharmacies or from a licensed mail order pharmacy. Health care coverage provided by SERS is not mandated by statute and may be changed or discontinued at any time.

Health care premiums are determined by the member’s years of service credit at retirement, retirement status (retiree or dependent), eligibility for employer health insurance at the time of retirement, and eligibility for Medicare. The premium is deducted from monthly benefit payments.

If the benefit recipient participates in Medicare Part B, SERS will reimburse $45.50 of the monthly Medicare Part B premium the recipient pays to Social Security. The amount of reimbursement is set by statute.

**Cost-of-Living Increases**

After 12 months of receiving a SERS’ pension, and each year thereafter, SERS retirees are entitled to an automatic cost-of-living increase of 3% on their base pension amount. In addition, the legislature has granted several permanent ad hoc increases to SERS retirees, the last such increase being in 1988.

**Reemployed Retirees’ Annuity**

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

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