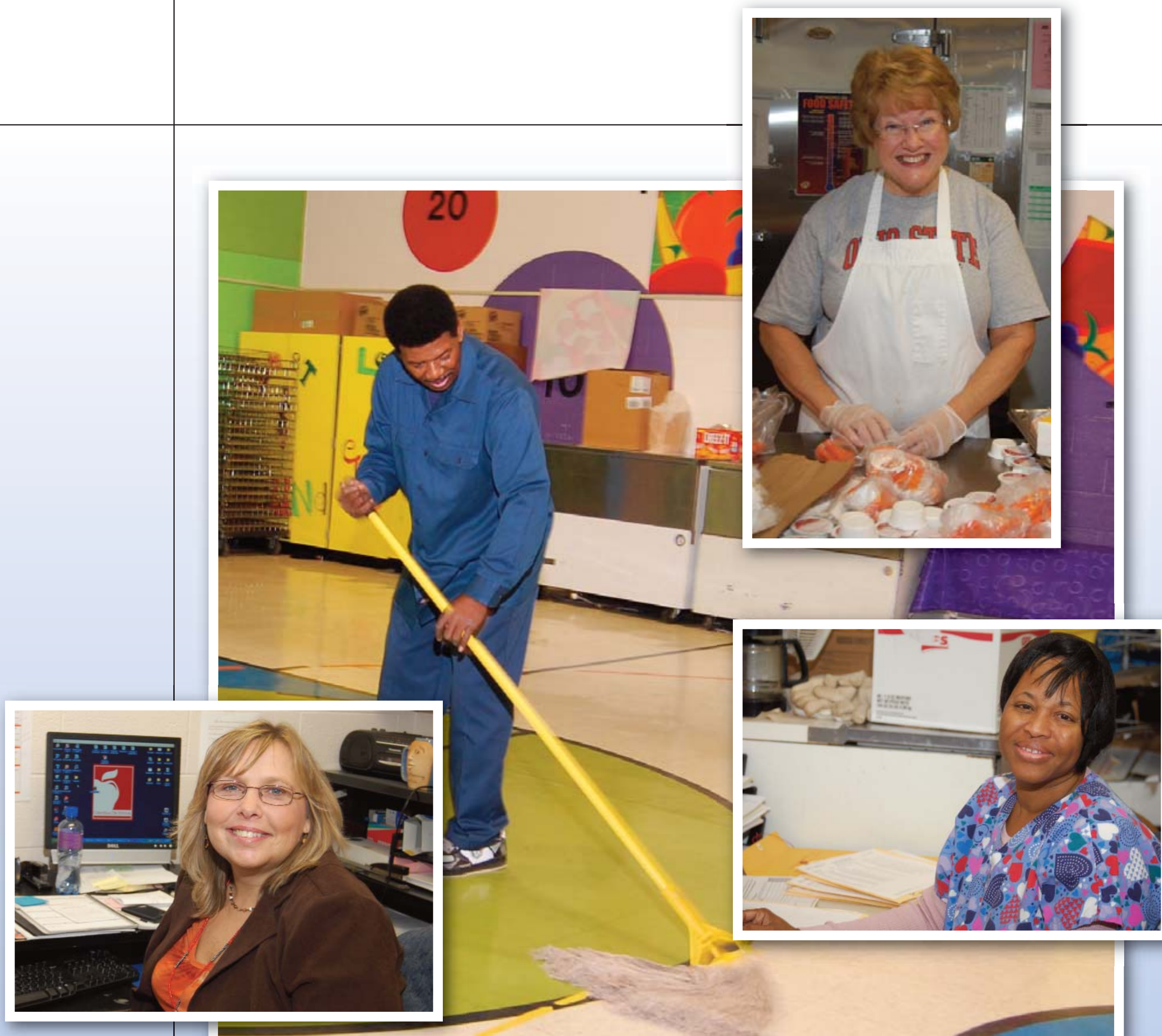
Comprehensive Annual Financial Report



School Employees Retirement System of Ohio

For the Year Ended June 30, 2009

ERC Aide, Brenda Smith, Park Street Intermediate

COMPREHENSIVE ANNUAL

SERS Financial Report

FOR THE YEAR ENDED JUNE 30, 2009

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

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.”

FRONT COVER PHOTOS *(clockwise)*: Custodian, Robert Johnson, Avalon Elementary, Columbus; Cook, Mary Craig, Park Street Intermediate, Grove City; Food Service Worker, Joyce Brooks, Avalon Elementary; CIMS Assistant and General Fund, Paula Russell, Avalon Elementary.

Table of Contents

Cook, Jerry Goldsmith, Park St. Intermediate

Introductory Section

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

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

Vice-Chair:
James A. Rossler, Jr.
Term Expires Nov. 4, 2012

Employee Member:
Mark E. Anderson
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, 2012

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

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

Appointed Member:
Richard W. Sensenbrenner
Term Expires Sept. 28, 2012

Advisors

Independent Auditor
Clifton Gunderson LLP - Toledo, Ohio

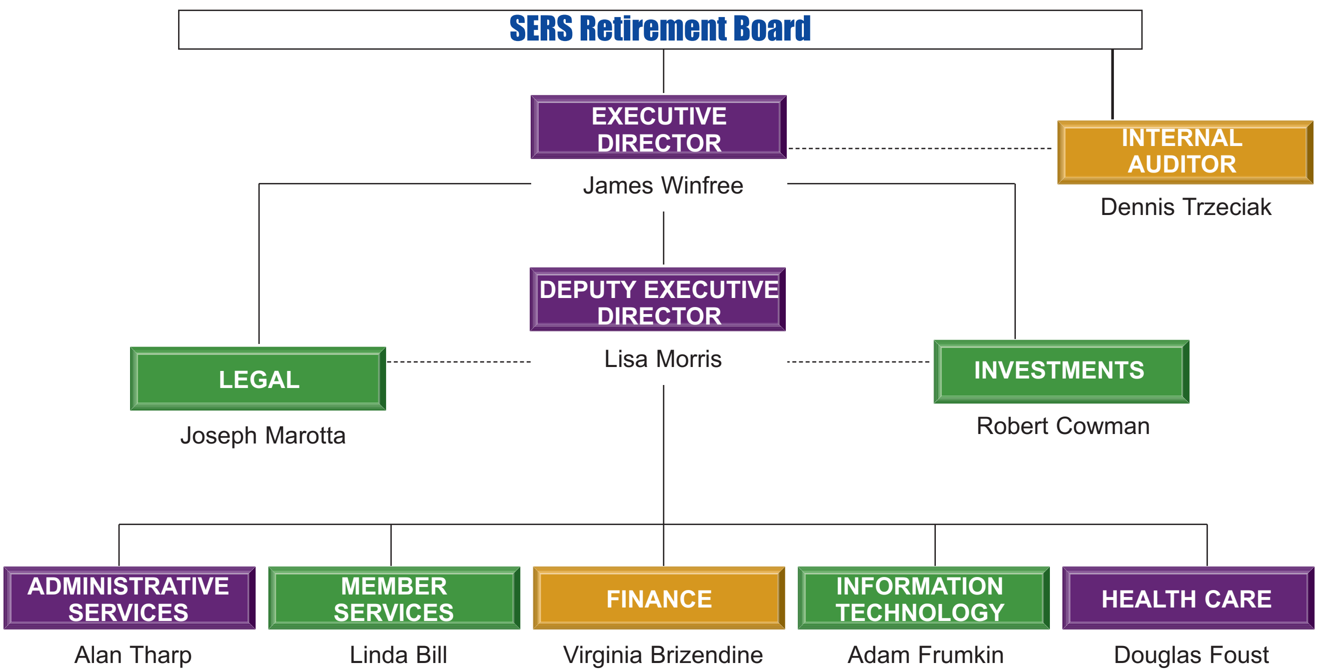
Actuary
Cavanaugh Macdonald Consulting, LLC - Kennesaw, Georgia

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

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



Public Pension Coordinating Council

Public Pension Standards Award
For Funding and Administration
_2009_

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, 2008

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 1-866-280-7377 • www.ohsers.org

JAMES R. WINFREE
Executive Director

LISA J. MORRIS
Deputy Executive Director

December 15, 2009

Dear Chair 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, 2009. 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 auditor 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

New Health Care Wellness Initiative SERS launched a new health and wellness program for under 65 non-Medicare retirees and SERS' staff in June. To assist in the implementation of the program, SERS contracted with Health Fitness Corporation. To encourage participation in the program, SERS offered up to a $50 premium reduction to health care-eligible retirees and employees who complete a health risk assessment. Other benefits of participating in the health and wellness program include working with a health coach who encourages healthy lifestyle changes, access to a website that provides numerous resources on exercise options and healthy eating choices, and access to health fairs where screenings such as total cholesterol, glucose, and blood pressure are provided free of charge.

Member/Retiree Benchmarking Survey In FY2009, SERS received the initial results from a three-year benchmarking survey conducted by Saperstein Associates, an independent research firm. The purpose of the survey is to identify trends in satisfaction levels and impressions of SERS' service levels. Some of the significant findings include: 94% of retirees and 84% of active members agree that SERS keeps them well-informed about pension-related issues; 80% of retirees and 84% of active members find SERS' representatives very helpful; and 86% of members and 82% of retirees find SERS publications to be attractive. Staff from all departments will analyze the results of the survey and look for ways to improve service to active members and retirees.

Ohio Retirement Study Council (ORSC) Initiates Pension Reform In 1996, the Ohio legislature established the requirement for a 30-year funding period for Ohio's public pension funds. Due to the significant investment losses during the recent economic downturn the ORSC, the state legislature's pension oversight group, asked the boards of Ohio's five public pension funds to actuarially determine the effects that certain contribution and benefit changes would have on the long-term solvency of the funds. After the actuary calculated the results of the changes, SERS' Board and staff convened meetings with stakeholders to review the effects of these changes on the funding period. Recommended changes to SERS' retirement ages for normal and early retirement were submitted to the ORSC at its September meeting. Work on this issue will continue in FY2010 with legislation for pension reform encompassing all five retirement systems possible during the current session of the General Assembly.

Even before the current financial crisis began, SERS' Board took action to keep the pension fund stable. SERS was the only Ohio public pension system to address pension design changes necessary to offset increased life expectancy. When SB 148 became effective in May 2008, it made the first change to SERS' eligibility requirements in fifty years. All provisions of the statute apply to new members only.

Benefit Payment Information Available Online In 2009, SERS began mailing direct deposit advices on a quarterly schedule rather than monthly. At the same time, payment details for all benefit payments were made available electronically to retirees who set up an online SERS account. This allowed benefit recipients to access their payment information at any time by logging onto their account. By changing the mailing frequency, SERS has saved approximately $21,000 per month in printing and mailing costs during the eight months that the advices are not printed.

Inaugural Joint Ohio Retirement System Legislative Orientation Shortly after the new General Assembly convened, SERS and the other four Ohio retirement systems sponsored a joint legislation orientation for new and returning Ohio legislators. About 25 legislators and legislative staff attended. Each of the five executive directors spoke on topics such as system governance, demographics, pension funding, actuarial requirements, investments, and health care. Staff plans to repeat and improve upon this event for future General Assemblies.

Communications After more than a year of planning, SERS' redesigned website debuted on June 30, 2009. A cross-departmental team focused on creating a more user-friendly, content driven site with special consideration for the organization's three main audiences: retirees, members, and employers. In addition to an updated look and better organized information, the new site gives SERS the capability to provide more interactive forms of communication like video and online registration for seminars and conferences.

INVESTMENTS

The primary objective of our investment policy is to ensure 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, investment approach, and individual investments within each asset class to reduce overall portfolio risk and volatility. However, in a global recession, no amount of portfolio diversification could protect SERS investments from a steep decline in market value during fiscal year 2009. Investment return was a negative 21.8% for the fiscal year versus a negative 19.1% for its benchmark. The strongest sectors of the portfolio were fixed income, short-term investments and hedge funds. The net portfolio value in custody on an accrual basis was $8.2 billion on June 30, 2009, a decrease of $2.7 billion from the previous fiscal year.

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, 2009 increased 3.8% to $14.2 billion; the actuarial value of assets decreased 13.5% to $9.7 billion; and the funded ratio decreased from 82.0% over a 28-year period to 68.4% over a 30-year period.

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 2009 actuarial valuation, the employer contribution allocation for the basic pension benefits has been increased from 9.84% to 13.54% for fiscal year 2010. The remainder of the total employer contribution rate of 14% is applied toward postretirement health care benefits, which are funded separately.

Governmental Accounting Standards Board (GASB) Statement 43 was 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 postemployment benefits covered by this GASB statement. The actuarial accrued liability for health care benefits on June 30, 2009 is $4.3 billion; and the actuarial value of assets in the Health Care Fund is $376 million. The funded ratio of the Health Care Fund is 8.8%. The actuarial accrued liability for Medicare B benefits on June 30, 2009 is $361 million; and the actuarial value of assets in the Medicare B Fund is $113 million. The funded ratio of the Medicare B Fund is 31.3%. 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 2009, 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.

Ensuring affordable, accessible, and high quality health care for retirees is an enormous challenge for public and private pension funds; and, it has been even more difficult in this economic downturn. We continue to pursue structural changes to the health care program to extend the longevity of the Health Care Fund beyond fiscal year 2014 when it is projected to run out.

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, 2008. This was the twenty-fourth consecutive year that SERS has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

SERS also received the Public Pension Coordinating Council (PPCC) Public Pension Standards Award for Funding and Administration for 2009. 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.

Auditor of State Mary Taylor presented SERS with the "Making Your Tax Dollars Count" award for the audits of fiscal years 2007 and 2008. Fewer than five percent of all Ohio government agencies are eligible for this award; to receive it entities must complete and submit a comprehensive annual financial report and receive an audit report with no findings or issues.

ACKNOWLEDGEMENTS

The Retirement Board officially recognized two of its members who departed during the past year. Mrs. Barbara E. Overholser left at the end of her term after having served with distinction on the Board for sixteen years. She was a tireless advocate for initiatives that greatly enhanced SERS' services and benefits and supported Board policies and resolutions to extend SERS' health care solvency. Mrs. Overholser attended numerous retirement and health care meetings across the state and developed a warm, caring relationship with SERS' members, retirees and staff. Mr. Daniel L. Wilson left in September 2008 when his four-year appointment as a representative of the governor ended. Mr. Wilson, treasurer of Mentor Exempted Village Schools, first served on the Board from 1992-1996. He was a steadfast champion for investment diversification and encouraged the use of Ohio-based investment fund managers whenever possible. His exceptional leadership was instrumental in shaping policies that will affect the System's financial strength for years to come.

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 SERS-covered employers and other interested parties and published on our website. Summary financial information will be distributed to active and retired SERS membership. We hope that readers will 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
Executive Director

Virginia S. Brizendine
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 128th General Assembly:

HB 1 Biennial Budget (7/17/2009 Signed by the Governor)
At one point, the governor proposed language for this bill that would have reduced the state's employer contribution to the Ohio Public Employees Retirement System from 14% to 8% for the biennium. Among those voicing opposition were the public retirement systems, a number of member and retiree organizations, and the Ohio Retirement Study Council, which recommended disapproval. The bill passed without the language.

HB 30 Retirement Incentives (6/10/2009 House Financial Institutions, Real Estate and Securities, 1st hearing)
This bill requires an analysis of each proposed retirement incentive plan for Ohio Public Employees Retirement System members, and would prohibit a member who participates in such a plan from being reemployed by the same employer.

HB 164 Public High School Law Enforcement (5/6/2009 Referred to Public Safety and Homeland Security)
This bill authorizes a board of education to employ public high school law enforcement officers, and that those employees are members of the Ohio Public Employees Retirement System. This is a companion bill to SB 122.

HB 177 STRS Investment Personnel (6/2/2009 House Aging and Disability Services, 1st hearing)
This bill provides that investment personnel of the State Teachers Retirement System of Ohio may not receive performance-based bonuses or premiums in years of negative investment returns. The Ohio Retirement Study Council recommended disapproval.

SB 83 PERS Benefits (4/28/2009 Senate Health, Human Services and Aging, 3rd hearing)
This bill excludes certain compensation when determining retirement benefits under the Ohio Public Employees Retirement System.

SB 122 Public High School Law Enforcement (10/20/2009 Senate Education Committee, 1st hearing)
This bill authorizes a board of education to employ public high school law enforcement officers, and that those employees are members of the Ohio Public Employees Retirement System. This is a companion bill to HB 164.

Federal Legislation

From the 111th Congress:

HR 235 Social Security Fairness Act of 2009 (1/7/2009 Referred to House Committee on Ways and Means)
This bill repeals the Government Pension Offset (GPO) and Windfall Elimination Provision (WEP). HR 235 has 308 co-sponsors, including 15 Ohioans: Reps. Boccieri, Driehaus, Fudge, Kaptur, Kilroy, Kucinich, Latta, LaTourette, Ryan, Schmidt, Space, Sutton, Tiberi, Turner, and Wilson. This is a companion bill to S 484.

S 484 Social Security Fairness Act of 2009 (2/25/2009 Referred to Senate Committee on Finance)
This bill repeals the GPO and WEP. S 484 has 29 co-sponsors, including Ohio Sen. Sherrod Brown. This is a companion bill to HR 235.

HR 1221 Public Servant Retirement Protection Act of 2009 (2/26/2009 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. HR 1221 has 19 co-sponsors. This is a companion bill to S 490.

S 490 Public Servant Retirement Protection Act of 2009 (2/26/2009 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. S 490 has no co-sponsors. This is a companion bill to HR 1221.

Library Learning Center Instructional Assistant, Lisa McDowell, Avalon Elementary

Finance 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, 2009, 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.

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, 2009, 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 11, 2009, 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 14 through 17 and the schedules of funding progress and employer contributions and related notes on pages 33 through 35 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 36 and 37 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 10, the investments section on pages 40 through 60, the actuarial section on pages 62 through 70, and the statistical section on pages 72 through 84 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 11, 2009

Management's Discussion and Analysis (Unaudited)

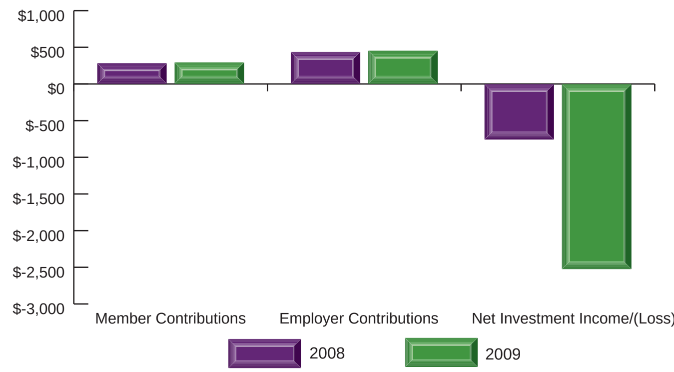
This discussion and analysis of the School Employees Retirement System of Ohio (SERS) financial performance provides a narrative overview of financial activities for the fiscal year ended June 30, 2009. We encourage readers to consider the information presented here in conjunction with the information in our Letter of Transmittal, which can be found in the Introductory Section of this report.

FINANCIAL HIGHLIGHTS

SERS' total plan net assets decreased $2.7 billion during the fiscal year; with all funds recording decreases in net assets, except the Qualified Excess Benefit Arrangement (QEBA) Fund. Components of the asset reduction were:

- Total additions to plan net assets were a negative $1.7 billion, comprised of contributions of $848 million and net investment losses of $2.5 billion.
- Total deductions from plan net assets for fiscal year 2009 totaled $997 million, an increase of 2.9% over fiscal year 2008 deductions.
- Administrative expenses increased 4.1% and total investment expenses, which include investment advisor fees, manager fees, custodial and recordkeeping costs as well as salaries and benefits for investment staff, decreased 13.9%.

Comparative Additions by Source
FY2008 & 2009
(in millions)



OVERVIEW OF FINANCIAL STATEMENTS

Following the management's discussion and analysis are the financial statements: the *Statement of Plan Net Assets* and the *Statement of Changes in Plan Net Assets*. Reviewing these statements, along with the accompanying notes will give the reader a 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. 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. 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*

CONDENSED SUMMARY OF TOTAL PLAN NET ASSETS
(in millions)

			Change	
ASSETS	2009	2008	Amount	Percent
Cash	$ 635.8	$ 380.6	$ 255.2	67.1%
Receivables	357.0	658.3	(301.3)	(45.8)
Investments	8,184.9	11,411.5	(3,226.6)	(28.3)
Property & Equipment	47.3	48.1	(0.8)	(1.7)
Other Assets	0.1	0.1	-	-
Total Assets	9,225.1	12,498.6	(3,273.5)	(26.2)
LIABILITIES				
Benefits & Accounts Payable	14.4	20.3	(5.9)	(29.1)
Investments Payable	700.1	1,292.1	(592.0)	(45.8)
Total Liabilities	714.5	1,312.4	(597.9)	(45.6)
Net Assets Held in Trust	$ 8,510.6	$11,186.2	$(2,675.6)	(23.9)%

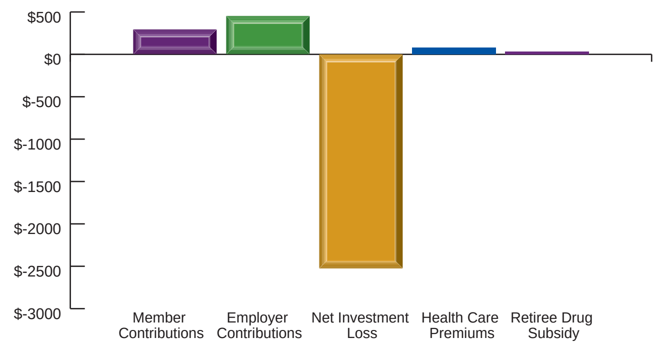
Information (RSI) is provided. *The Schedules of Funding Progress* present on an actuarial basis the changes in SERS' ability to pay for benefits. Also included in the RSI are the *Schedules of Employer Contributions* and a note to the *Schedules of Funding Progress*. SERS is required to present these schedules for pensions and other postemployment benefits (Medicare B and health care). Following the RSI is other supplementary information including schedules with 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, thus SERS does not use the current contributions from members and employers to pay the pensions of current retirees. Instead, contributions are invested in assets with the highest possible return at an acceptable level of risk that will provide for the lifetime pensions of retirees.

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 qualified excess benefit arrangement, a separate plan under Internal Revenue Code §415, is funded by contributions from the retiree's last employer and invested separately in a short-term investment fund. 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.

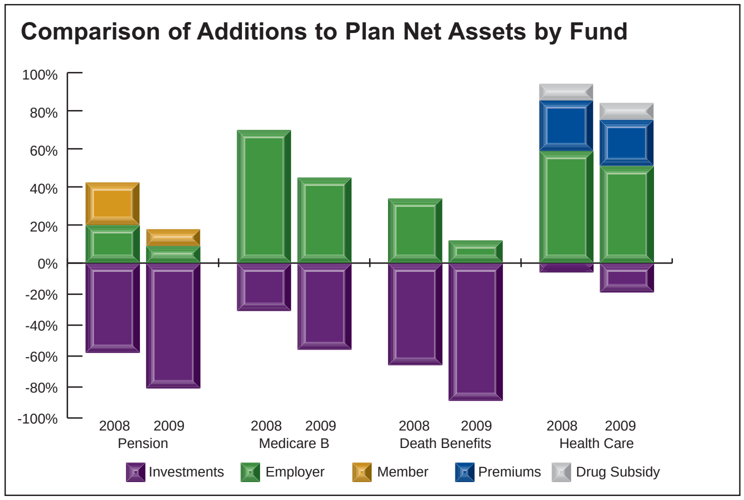
Additions to Plan Net Assets
(in millions)



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 less than 1% in 2009; therefore the contribution increase of 3.8% came primarily from merit and cost-of-living raises. Although this increase may seem out of line in the current environment of wage freezes or reductions, and unpaid furloughs, multi-year contracts dictate the pay increases of many SERS members and there has been little evidence that contracts were opened for renegotiation of wages.

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

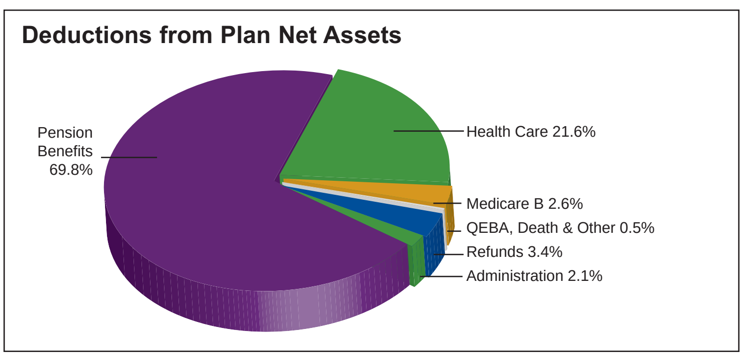
			Change	
ADDITIONS	2009	2008	Amount	Percent
Contributions	$ 847.6	$ 816.7	$ 30.9	3.8%
Net Investment Loss	(2,526.4)	(759.8)	(1,766.6)	(232.5)
Total Additions	(1,678.8)	56.9	(1,735.7)	(3,050.4)
DEDUCTIONS				
Benefits	938.9	905.0	33.9	3.7
Refunds & Transfers	37.4	43.6	(6.2)	(14.2)
Admin. Expenses	20.5	19.7	0.8	4.1
Total Deductions	996.8	968.3	28.5	2.9
Net Decrease	(2,675.6)	(911.4)	(1,764.2)	(193.6)
Balance, Beginning of Year	11,186.2	12,097.6	(911.4)	(7.5)
Balance, End of Year	$ 8,510.6	$11,186.2	$(2,675.6)	(23.9)%



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 decreased from 4.18% to 4.16%. 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. For fiscal year 2009, 73.5% of SERS members earned 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, as it was last year, most employers paid 1.51% of payroll for the surcharge; only 41 of the 1,024 reporting employers paid less than 1.51%, or nothing at all.

Investment income is allocated, in accordance with the actuary's recommendation, to all funds except the QEBA. With the economy in a deep recession, SERS' investment losses totaled $2.5 billion in fiscal year 2009. Investment net loss 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 decreased $88.0 million in 2008 to $267.5 million in 2009. SERS' investment portfolio, with the exception of cash and short-term investments, is handled by external investment managers whose fees are based on asset performance. Overall, total investment expenses decreased from $76.3 million to $65.7 million. The decrease in management and custody fees were offset by increases in consulting, analytics, and internal investment expenses. 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. Health care program and premium changes are made on a calendar year basis. The most recent changes occurred January 2008, as the Board decided not to increase premiums for 2009. Premium increases come from new enrollees in the health care program. Decreases result when retirees and dependents become eligible for Medicare or when participation in the plan terminates. The other source of contributions to the Health Care Fund, the federal government's Medicare Part D subsidy program, added $23.5 million in fiscal year 2009, an increase of 7.1% over the previous year.

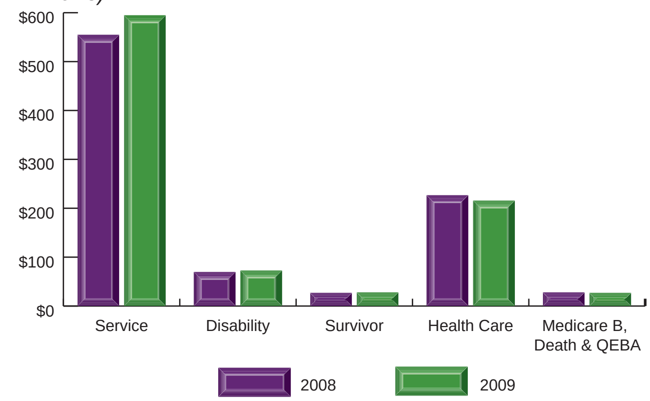


Deductions Expenses are incurred primarily for the purpose for which SERS was created: the payment of benefits to non-teaching Ohio public and charter school employees. Included in the deductions from plan assets for 2009 were benefit payments, refunds of contributions due to member terminations or deaths, net transfers to other Ohio retirement systems to provide benefits for those members who had membership in more than one system, and administrative expenses.

Payments to service, disability, and survivor benefit recipients increased $45.4 million, or 6.7%. Retirees receive an annual 3% cost-of-living allowance on the anniversary of their retirement date which makes up approximately half of the increase. The balance results from the larger average annual benefit of new retirees in comparison to the benefits terminated during the year.

Total refunds paid decreased 12.1% from 2008 to 2009. Upon application, lump sums are disbursed to members who have terminated public employment as well as to the beneficiaries of deceased members. Refunds fluctuate from year to year, however it may be inferred that members are less likely to voluntarily terminate employment in a poor job market. Net transfers to other Ohio retirement systems decreased 31.7%. As the value of personal investments has fallen in this recession, members may be postponing retirement to defer making withdrawals from their savings and allow their investments to recover some of their previous value.

Comparative Benefit Payments FY2008 & 2009
(in millions)



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. The amount of Medicare Part B reimbursement is statutorily determined and was last increased in 2001. For calendar year 2009, SERS reimbursed $45.50 of the $96.40 monthly Part B premium. Medicare Part B expense increased 0.8% in fiscal year 2009. Because the reimbursement amount has not changed, this expense only changes as retirees become eligible for Medicare Part B or when a benefit terminates.

SERS pays a $1,000 death benefit to the designated beneficiary of service and disability retirees. Death benefit payments decreased $405 million in fiscal year 2009. Annual death benefit payments are susceptible to the timing of reporting and processing thus the 18.5% decrease cannot be attributed solely to the growing longevity of SERS' benefit recipients.

Health care claims expense decreased 4.9% from $226.4 million to $215.4 million. The adoption of Medicare Advantage plans for the over-65 retiree population in January 2008 meant that SERS no longer self-insures this group which is the largest segment of the retirees and dependents enrolled in SERS' health program. This resulted in a reduction of the incurred claims that had not been reported at year-end and the elimination of fees paid to third-party administrators of these plans. Participation in Medicare Advantage plans has given SERS greater control over doctor and hospital expenses; however, SERS is self-insured for prescription drugs, which increased 3.8% over the expense incurred in 2008.

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, 2009

	Pension Trust Fund	Medicare B Fund	Death Benefit Fund
ASSETS			
Cash & Operating Short-Term Investments	$ 579,404,826	$ 5,953,748	$ 1,162,608
Receivables			
Contributions			
Employer	111,606,128	8,677,690	303,245
Employee	16,041,037	-	-
Investments Receivable	95,608,524	1,036,636	195,303
Other Receivables	827,074	-	-
Total Receivables	224,082,763	9,714,326	498,548
Investments at Fair Value			
US Equity	1,801,928,443	19,508,492	3,677,703
Non-US Equity	2,459,342,566	26,625,954	5,019,473
Private Equity	608,468,047	6,587,550	1,241,872
Fixed Income	1,789,734,122	19,376,471	3,652,815
Real Estate	820,707,082	8,885,346	1,675,048
Total Investments	7,480,180,260	80,983,813	15,266,911
Securities Lending Collateral	367,567,758	3,979,455	750,199
Capital Assets			
Land	3,315,670	-	-
Property & Equipment, at Cost	60,423,314	-	-
Accumulated Depreciation	(16,463,044)	-	-
Total Capital Assets	47,275,940	-	-
Prepaids and Other Assets	84,744	-	-
TOTAL ASSETS	8,698,596,291	100,631,342	17,678,266
LIABILITIES			
Accounts Payable & Accrued Expenses	1,869,820	98,822	1,058
Benefits Payable	570,499	21,431	332,698
Investments Payable	266,935,334	2,889,963	544,810
Obligations under Securities Lending	404,331,432	4,377,475	825,233
TOTAL LIABILITIES	673,707,085	7,387,691	1,703,799
NET ASSETS HELD IN TRUST FOR PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS	$ 8,024,889,206	$ 93,243,651	$ 15,974,467

(Unaudited Schedules of Funding Progress are presented on page 33.)
See accompanying notes to the financial statements.

FINANCIAL SECTION

QEBA Fund	Health Care Fund	TOTAL
$ 75,888	$ 49,254,144	$ 635,851,214
-	106,714,268	227,301,331
-	-	16,041,037
45	2,890,402	99,730,910
-	13,061,791	13,888,865
45	122,666,461	356,962,143
-	54,241,523	1,879,356,161
-	74,030,957	2,565,018,950
-	18,316,062	634,613,531
-	53,874,450	1,866,637,858
-	24,704,867	855,972,343
-	225,167,859	7,801,598,843
-	11,064,499	383,361,911
-	-	3,315,670
-	-	60,423,314
-	-	(16,463,044)
-	-	47,275,940
-	-	84,744
75,933	408,152,963	9,225,134,795
1,348	11,487,316	13,458,364
-	-	924,628
-	8,035,269	278,405,376
-	12,171,156	421,705,296
1,348	31,693,741	714,493,664
$ 74,585	$ 376,459,222	$ 8,510,641,131

Statement of Changes in Plan Net Assets for the year ended June 30, 2009

ADDITIONS	Pension Trust Fund	Medicare B Fund	Death Benefit Fund
Contributions			
Employer	$ 268,645,839	$ 21,688,294	$ 734,970
Employee	295,788,567	-	-
Other Income			
Health Care Premiums	-	-	-
Retiree Drug Subsidy	-	-	-
	564,434,406	21,688,294	734,970
Income (Loss) from Investment Activity			
Net Appreciation (Depreciation) in Fair Value	(2,597,109,292)	(29,456,069)	(5,566,359)
Interest and Dividends	257,786,931	2,926,041	552,899
	(2,339,322,361)	(26,530,028)	(5,013,460)
Investment Expenses	(63,289,060)	(717,026)	(135,615)
Net Income (Loss) from Investment Activity	(2,402,611,421)	(27,247,054)	(5,149,075)
Loss from Securities Lending Activity			
Gross Income	(25,595,918)	(290,530)	(54,898)
Brokers' Rebates	(5,758,184)	(65,359)	(12,350)
Management Fees	(860,258)	(9,764)	(1,845)
Net Loss from Securities Lending Activity	(32,214,360)	(365,653)	(69,093)
Net Investment Income (Loss)	(2,434,825,781)	(27,612,707)	(5,218,168)
TOTAL ADDITIONS	(1,870,391,375)	(5,924,413)	(4,483,198)
DEDUCTIONS			
Benefits			
Retirement	595,262,076	22,790,277	-
Disability	72,571,590	1,340,431	-
Survivor	28,318,931	1,319,227	-
Death	-	-	1,780,430
Health Care Expenses	-	-	-
	696,152,597	25,449,935	1,780,430
Refunds and Lump Sum Payments	34,213,067	-	-
Net Transfers to Other Ohio Systems	3,224,094	-	-
Administrative Expenses	17,694,009	9,145	40,782
	55,131,170	9,145	40,782
TOTAL DEDUCTIONS	751,283,767	25,459,080	1,821,212
Net Increase (Decrease)	(2,621,675,142)	(31,383,493)	(6,304,410)
NET ASSETS HELD IN TRUST FOR PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS			
Balance, Beginning of Year	10,646,564,348	124,627,144	22,278,877
Balance, End of Year	$ 8,024,889,206	$ 93,243,651	$ 15,974,467

See accompanying notes to the financial statements.

QEBA Fund	Health Care Fund	TOTAL
$ 115,573	$ 163,411,488	$ 454,596,164
-	-	295,788,567
-	73,780,246	73,780,246
-	23,504,101	23,504,101
115,573	260,695,835	847,669,078
1,109	(62,687,916)	(2,694,818,527)
-	6,282,855	267,548,726
1,109	(56,405,061)	(2,427,269,801)
-	(1,561,221)	(65,702,922)
1,109	(57,966,282)	(2,492,972,723)
-	(623,831)	(26,565,177)
-	(140,340)	(5,976,233)
-	(20,966)	(892,833)
-	(785,137)	(33,434,243)
1,109	(58,751,419)	(2,526,406,966)
116,682	201,944,416	(1,678,737,888)
110,465	-	618,162,818
-	-	73,912,021
-	-	29,638,158
-	-	1,780,430
-	215,409,645	215,409,645
110,465	215,409,645	938,903,072
-	-	34,213,067
-	-	3,224,094
1,349	2,756,280	20,501,565
1,349	2,756,280	57,938,726
111,814	218,165,925	996,841,798
4,868	(16,221,509)	(2,675,579,686)
69,717	392,680,731	11,186,220,817
$ 74,585	$ 376,459,222	$ 8,510,641,131

FINANCIAL SECTION

Notes to Financial Statements
June 30, 2009

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, in particular global real estate and global private equity, use 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 Plan 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 2009 will be received by the end of calendar year 2009; the surcharge owed for fiscal year 2009 will be received by the end of calendar year 2010.

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, real estate investment trusts (REIT), 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, 2009 was $1,013.728. The unit holdings and net value of each of the funds at the close of the fiscal year were:

	Units	Value
Pension Trust Fund	7,707,505.490	$7,813,315,771
Medicare B Fund	83,444.939	84,590,489
Death Benefits Fund	15,730.877	15,946,835
Health Care Fund	232,010.787	235,195,880
Total	8,038,692.093	**$8,149,048,975**

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, 2009

	Pension Trust Fund	Medicare B Fund	Death Benefit Fund	QEBA Fund	Health Care Fund	**Reserve Account Totals**
Employees' Svgs Acct.	$ 2,614,667,894	$ –	$ –	$ –	$ –	$ 2,614,667,894
Employers' Trust Acct.	(1,986,854,368)	–	–	–	376,459,222	(1,610,395,146)
Annuity and Pension Reserve Acct.	7,100,770,260	93,243,651	15,974,467	74,585	–	7,210,062,963
Survivors' Benefit Acct.	296,305,420	–	–	–	–	296,305,420
Guarantee Acct.	–	–	–	–	–	–
Expense Acct.	–	–	–	–	–	–
Fund Totals	**$ 8,024,889,206**	**$ 93,243,651**	**$ 15,974,467**	**$ 74,585**	**$ 376,459,222**	**$ 8,510,641,131**

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, 2009 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 or disability benefit recipient. The Qualified Excess Benefit Arrangement (QEBA) Fund was established for retirees whose benefits under SERS' statutes exceed Internal Revenue Code (IRC) 415(b) limits. Money available for health care benefits is in a separate plan known as the Health Care Fund.

EMPLOYER AND EMPLOYEE MEMBERSHIP DATA (as of June 30, 2009)	
Employer Members	
Local	374
City	192
Educational Service Center	58
Village	49
Higher Education	15
Vocational/Technical	49
Community Schools	265
Other	9
Total	1,011
Employee Members and Retirees	
Retirees and beneficiaries currently receiving benefits	65,757
Terminated employees entitled to but not yet receiving benefits	11,911
Total	77,668
Active Employees	
Vested active employees	77,215
Non-vested active employees	48,250
Total	125,465

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. 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. Death benefits of $1,000 are payable upon the death of a retiree or disability benefit recipient to a beneficiary.

Qualified benefit recipients who pay Medicare 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 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 12-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, disability benefit recipients, 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 HMOs, PPOs, 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 10 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 2009 were $73.8 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 2009, the amount of employer contributions directed to the Health Care Fund was 4.16% of covered payroll or $119.3 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 during the year. 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 2009, the minimum compensation level was established at $35,800. The surcharge accrued for fiscal year 2009 and included in employer additions on the *Statement of Changes in Plan Net Assets* is $44.1 million.

3. Contributions

The Ohio Revised Code (ORC) 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 2009, 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 2009, the allocation of the employer contribution rate to pension plan benefits was established as the rate necessary to cover normal cost and amortize the unfunded accrued liability. Of the 14% contribution rate paid by employers, 9.84% was allocated to the pension plans in the following rates:

Pension Trust Fund	9.06%
Medicare B Fund	.75%
Death Benefit Fund	.03%

During fiscal year 2009, the remaining 4.16% of the 14% employer contribution rate was allocated to the Health Care Fund.

Employer and employee contributions were $409.0 million and $292.1 million, respectively, in 2009. The 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, 2009, the carrying amounts of SERS' operating and investment cash deposits totaled $54,226,203 and the corresponding bank balances totaled $25,260,532. Of the bank balances, the Federal Deposit Insurance Corporation insured $219,447. Also in accordance with the state statute, additional bank balances of $70,622 were collateralized at 102% with securities held in the name of SERS' pledging financial institutions. The remaining bank deposits of $25,041,085 were uninsured and uncollateralized.

INVESTMENTS AND SHORT-TERM HOLDINGS

	Fair Value (in thousands)
Commingled - Bonds	$ 66,662
Commingled - Equity	63,293
Commingled - Non-US Equity	861,015
Commingled Fixed - Other	129,336
Foreign Warrants, Rights & Vouchers	5,252
Mutual Fund - Money Market	581,624
Non-US Bonds	172,377
Non-US Common and Preferred	1,665,978
Private Equity	634,614
Private Real Estate	777,650
Real Estate Investment Trusts	78,322
US Agency	409,448
US Common & Preferred	1,709,121
US Corporate Bonds	790,596
US Government	44,588
Securities on Loan:	
Non-US Bonds	$ 4,530
Non-US Common and Preferred	32,926
US Government	51,564
US Agency	130,418
US Corporate Bonds	84,443
US Common & Preferred	106,942
Total Investments Fair Value	**$ 8,400,699**
Securities Lending Collateral Pool	**$ 383,362**

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 ORC assigns the Ohio Treasurer of State as SERS' 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 2009) direct that the funds of SERS 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.

FAIR VALUE SUBJECT TO INTEREST RATE RISK

Investment	Fair Value *(in thousands)*	Option Adjusted Duration *(in years)*
US Agency	$ 539,866	3.03
US Corporate Obligations	875,038	4.47
Commingled - Bonds	66,663	2.72
US Government	96,152	4.74
Foreign Obligations	176,907	5.46
Mutual Fund - Money Market	581,624	N/A*
Total Debt Securities	**$ 2,336,250**	**3.06**

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

FAIR VALUE SUBJECT TO CREDIT RISK

	Quality Rating	*Fair Value (in thousands)*
US Corporate Obligations	AAA	$ 108,567
	AA	47,340
	A	222,067
	BBB	263,029
	BB	79,594
	B	50,512
	CCC	77,584
	CC	18,834
	C	572
	Not rated	6,939
Total		$ 875,038
Foreign Obligations	AAA	43,750
	AA	15,143
	A	31,728
	BBB	67,007
	BB	11,292
	B	4,689
	CCC	203
	C	1,054
	Not rated	2,041
Total		$ 176,907
Commingled - Bonds	AAA	5,806
	A	34,268
	BBB	7,453
	B	19,136
Total		$ 66,663
US Agency	AAA	539,866
US Government	AAA	96,152
Mutual Fund - Money Market	A-1	$ 581,624
Total debt securities		**$2,336,250**

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 funds 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, 2009, SERS held interest-only strips that had a total fair value of $185,560. 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 held principal-only strips that had a total fair value of $1,098,608. 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.

Foreign Currency Risk Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. SERS exposure to foreign currency risk derives from its positions in foreign currency and foreign currency-denominated investments. The 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	$ –	$ –	$ 33	$ –	$ –
Australian Dollar	(37,082)	10,788	70,459	–	–
Brazilian Real	(33)	6,126	41,302	–	–
British Pound Sterling	(159,632)	–	243,927	11,072	–
Bulgarian Lev	–	–	503	–	–
Canadian Dollar	(49,193)	8,608	56,604	–	–
Chilean Peso	3	–	–	–	–
Chinese Yuan	–	–	28	–	–
Czech Koruna	(2,144)	–	3,701	–	–
Danish Krone	(3,840)	–	8,670	–	–
Euro	(188,466)	6,634	325,365	43,673	19,349
Hong Kong Dollar	(25,577)	–	161,461	–	–
Hungarian Forint	(1,530)	–	2,110	–	–
Indian Rupee	5,970	–	12,315	–	–
Indonesian Rupiah	28	–	2,275	–	–
Israeli Shekel	1,037	–	4,363	–	–
Japanese Yen	(164,627)	–	308,642	–	–
Lithuanian Lats	33	–	–	–	–
Malaysian Ringgit	66	–	7,686	–	–
Mexican New Peso	1,483	–	8,196	–	–
New Taiwan Dollar	2,811	–	32,806	–	–
New Zealand Dollar	(1,383)	4,509	1,687	–	–
Norwegian Krone	826	–	3,699	–	–
Pakistan Rupee	–	–	2,366	–	–
Philippines Peso	31	–	1,017	–	–
Polish New Zloty	412	–	3,758	–	–
Romanian Leu	1	–	11	–	–
Russian Rubel	15	–	10	–	–
Singapore Dollar	(8,782)	–	33,120	–	–
South African Rand	307	–	43,878	–	–
South Korean Won	4,811	(29)	36,438	–	–
Swedish Krona	(26,148)	–	40,427	–	–
Swiss Franc	(43,990)	–	90,301	–	–
Thailand Baht	65	–	6,380	–	–
Turkish Lira	414	–	16,976	–	–
Ukraine Hryvana	–	–	420	–	–
Total	**($694,114)**	**$36,636**	**$1,570,934**	**$54,745**	**$19,349**

Derivatives Derivatives are 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. SERS 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

FORWARD CONTRACTS	Notional Value *(in thousands)*
Forward Currency Contract Payables	$ (1,430,727)
Forward Currency Contract Receivables	1,418,801

SWAP CONTRACTS Contract Type	Notional Value *(in thousands)*
Credit Default	$ 103,801
Interest Rate	119,369

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 equity and fixed income futures during the fiscal year to rebalance its asset allocation and overlay its cash exposure in the US and Non-US equity portfolios. Only the most liquid futures are used by SERS to overlay the temporary and transactional cash held and to rebalance asset allocations between asset classes.

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)*
90-Day Eurodollar	Sep 09, Dec 09, Mar 10, Jun 10, Sep 10, Dec 10	Short	$ (24,227)
US Treasury 2-year Note	Sep 09	Long	69,190
US Treasury 5-year Note	Sep 09	Long	118,849
US Treasury 10-year Note	Sep 09	Short	(51,506)
US Treasury 30-year Bond	Sep 09	Long	8,404
CAC 40 Euro Index	Jul 09	Long	3,123
DAX Index	Sep 09	Long	2,197
DJ Euro Stoxx 50 Index	Sep 09	Long	2,153
E-mini S&P 500 Index	Sep 09	Long	9,613
FTSE 100 Index	Sep 09	Long	7,780
FTSE/MIB Index	Sep 09	Long	1,071
Hang Seng Index	Jul 09	Long	1,307
IBEX 35 Index	Jul 09	Long	1,227
Mini-Russell 2000 Index	Sep 09	Long	3,804
Mini-Russell 1000 Index	Sep 09	Long	5,254
S&P 500 Index	Sep 09	Long	10,757
S&P/TSE 60 Index	Sep 09	Long	3,888
SPI 200 Index	Sep 09	Long	2,996
TOPIX Index	Sep 09	Long	10,157

OPTIONS CONTRACTS

Contract Type	Number of Contracts	Notional Value *(in thousands)*
Currency Written Put Options	769	$ 769,000

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 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 in the securities lending program. Total net proceeds from GSAL and Wachovia were $3,012,269 and $1,257,159, respectively, during fiscal year 2009.

At June 30, 2009, SERS had credit risk exposure on the securities lending collateral because the collateral was less than the value of the securities loaned. Securities on loan at year-end totaled $421,705,296 and total collateral held for those securities was $383,361,911. 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, 2009, the GSAL collateral portfolio had an average weighted maturity of 17 days. The Wachovia collateral portfolio had an average weighted maturity of 21 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 $639,714 during fiscal year 2009.

Commitments As of June 30, 2009, unfunded commitments related to the real estate and private equity investment portfolios totaled $1.2 billion.

5. Capital Assets (Non-Investment Assets)

CAPITAL ASSETS ACTIVITY for the year ended June 30, 2009

	Land	Office building & improvements	Furniture & equipment	Total Capital Assets
Cost:				
Balances, June 30, 2008	$3,315,670	$52,396,350	$7,792,147	$63,504,167
Additions	–	646,279	300,714	946,993
Disposals	–	–	(712,176)	(712,176)
Balances, June 30, 2009	3,315,670	53,042,629	7,380,685	63,738,984
Accumulated Depreciation:				
Balances, June 30, 2008	–	8,540,041	6,879,884	15,419,925
Additions	–	1,319,414	435,881	1,755,295
Disposals	–	–	(712,176)	(712,176)
Balances, June 30, 2009	–	9,859,455	6,603,589	16,463,044
Net Capital Assets, June 30, 2009	**$3,315,670**	**$43,183,174**	**$ 777,096**	**$47,275,940**

6. Pension Plan

For its employees, SERS contributes to 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 10% of their salary to the plan and employers were required to contribute 14%. Both rates are at the statutory maximum.

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 45.

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% of covered member payroll. In the first half of calendar year 2007, the rate was set at 5% of member covered payroll, and was increased to 6% during the second half. The rate increased to 7% in 2008.

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 TO OPERS FOR SERS EMPLOYEES

	Pension		Health Care	
Year Ended June 30	Annual Required Contribution	Percent Contributed	Annual Required Contribution	Percent Contributed
2009	$771,989	100%	$771,988	100%
2008	780,230	100	679,802	100
2007	907,810	100	473,640	100

7. Compensated Absences

As of June 30, 2009 and 2008, $1,749,259, and $1,521,659, respectively, were accrued for unused vacation and sick leave for SERS employees. The corresponding long-term portion of these liabilities is estimated at $670,160 and $696,937. The net increase of $227,600 from June 30, 2008 included increases of $1,020,165 and decreases of $792,565. 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 of SERS

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 Internal Revenue Code (IRC) Section 401(a) 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 Section 101(a). The QEBA Fund is a qualified entity, created in accordance with IRC 415(b). 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 risks 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 for a period of time during 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, 2009, the most recent actuarial valuation date is as follows:

FUNDED STATUS 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	$14,221	$9,723	$4,498	68.4%	$2,787	161.4%
Medicare B	361	113	248	31.3	2,787	8.9
Health Care	4,280	376	3,904	8.8	2,787	140.1

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.

Qualified benefit recipients who pay Medicare 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 below.

KEY METHODS AND ASSUMPTIONS USED IN ACTUARIAL VALUATIONS

Actuarial Information	Pension & Death Benefit	Medicare B	Health Care
Valuation date	June 30, 2009	June 30, 2009	June 30, 2009
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	30 years	30 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	10.5% initial, 5.0% 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. Recently Issues Accounting Pronouncements

GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. This statement is effective for the fiscal year ending June 30, 2010. This statement provides clarification as to when an intangible asset should be recorded and establishes an approach to recognizing intangible assets that are internally generated.

GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. This statement is effective for the fiscal year ending June 30, 2010. The objective of this pronouncement is to enhance the usefulness and comparability of derivative information reported in the financial statements.

Management does not anticipate the implementation of GASB No. 51 and No. 53 will have a significant impact on SERS' financial statements.

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
2009	$14,221	$ 9,723	$4,498	68.4%	$2,787	161.4%
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

^ 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
2009	$361	$113	$248	31.3%	$2,787	8.9%
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

^ 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
6/30/2009	$4,280	$376	$3,904	8.8%	$2,787	140.1%
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 1 to June 30.
^ 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 35.

Schedule of Employer Contributions
Pension Benefits and Postretirement Death Benefit

Year ended June 30	Actuarial Annual Required Contributions	% Contributed
2009	$269,380,809	100%
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

Schedule of Employer Contributions
Medicare B

Year ended June 30	Actuarial Annual Required Contributions	% Contributed
2009	$21,688,294	100%
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

Schedule of Employer Contributions and Other Contributing Entities
Postemployment Health Care

Year ended June 30	Actuarial Annual Required Contributions	% Contributed by Employers#	Federal Subsidy	Total % Contributed
2009	$373,789,127	43.7%	$23,504,101	50.0%
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 indicates the percentage of the ARC that was actually 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, 2009.

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:	30 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^ of 8.00% Projected salary increases* of 4.50% to 24.75% Cost-of-living adjustments of 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:	30 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^ of 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 Medical Trend Assumption 10.5% initially, decreasing to 5.0% by 2016, level thereafter.

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

See accompanying independent auditor’s report.

Schedule of Administrative Expenses for the year ended June 30, 2009

	General Expenses	Investment Related Expenses	Total
Personnel Services			
Salaries	$ 9,466,551	$ 1,843,721	$ 11,310,272
Retirement Contributions	1,290,540	253,437	1,543,977
Insurance	1,866,979	220,096	2,087,075
Total Personnel Services	12,624,070	2,317,254	14,941,324
Professional Services			
Actuarial Advisors	220,709	-	220,709
Audit Services	158,937	-	158,937
Custodial Banking	142,904	-	142,904
Investment Related	-	4,880,068	4,880,068
Medical	482,965	-	482,965
Technical	1,631,951	634,572	2,266,523
Total Professional Services	2,637,466	5,514,640	8,152,106
Communications			
Postage	626,406	-	626,406
Telephone	199,681	-	199,681
Member / Employer Education	44,606	-	44,606
Printing and Publication	186,303	-	186,303
Total Communications	1,056,996	-	1,056,996
Other Services			
Computer Support Services	655,308	20,625	675,933
Office Equipment and Supplies	218,952	2,510	221,462
Training	173,480	20,425	193,905
Transportation and Travel	128,204	102,034	230,238
Memberships and Subscriptions	80,549	25,009	105,558
Property and Fiduciary Insurance	368,501	-	368,501
Facilities Expense	692,976	-	692,976
Administrative Banking Fees	27,679	-	27,679
Ohio Retirement Study Council	39,585	-	39,585
Miscellaneous	42,504	-	42,504
Total Other Services	2,427,738	170,603	2,598,341
Total Adminstrative Expenses before Depreciation	18,746,270	8,002,497	26,748,767
Depreciation			
Furniture & Equipment	435,881	-	435,881
Building	1,319,414	-	1,319,414
Total Depreciation	1,755,295	-	1,755,295
Total Administrative Expenses	$ 20,501,565	$ 8,002,497	$ 28,504,062

See accompanying independent auditor's report.

Schedule of Investment Expenses for the year ended June 30, 2009

Description of Expense	Net Assets Under Management	Direct Fees
US Equity	$ 2,262,624,871	$ 5,659,227
Non-US Equity	2,186,943,686	11,803,869
Private Equity	634,613,553	19,841,764
Fixed Income	2,020,069,372	7,812,064
Real Estate	857,691,521	12,583,501
Total Investment Management Fees		57,700,425
Custody Service Fees		1,724,655
Master Recordkeeper Fees		847,659
Investment Consulting and Performance/Analytics Fees		2,122,729
Investment Administrative Expenses		3,307,454
Total Other Investment Expenses (see page 36)		8,002,497
Total Investment Expenses		$ 65,702,922

Schedule of Payments to Consultants

SERS paid the following non-investment related consulting fees in fiscal year 2009:

Actuarial Advisors	$ 220,709
Audit Services	158,937
Legal Counsel	83,598
Medical Consultant	26,100
Disability Exams	456,865
Information Technology Consultants	1,075,935
Health Care Consultants	255,635
Other Consultants	359,687
Total	$ 2,637,466

See accompanying independent auditor's report.

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Custodian, Allen Goldsmith, Park St. Intermediate

Investment Section

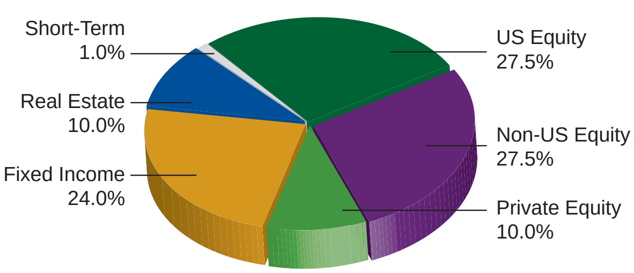
Investment Summary as of June 30, 2009

	Fair Value	Actual	Target	Range
US Equity*	$ 2,262,624,871	27.6%	27.5%	22.5% - 32.5%
Non-US Equity	2,186,943,686	26.7	27.5	22.5 - 32.5
Private Equity	634,613,553	7.8	10.0	5 - 15
Fixed Income*	2,020,069,372	24.7	24.0	19 - 29
Real Estate	857,691,521	10.5	10.0	5 - 15
Short-Term	225,158,598	2.7	1.0	0 - 5
Net Portfolio Value	$ 8,187,101,601	100.0%	100.0%	

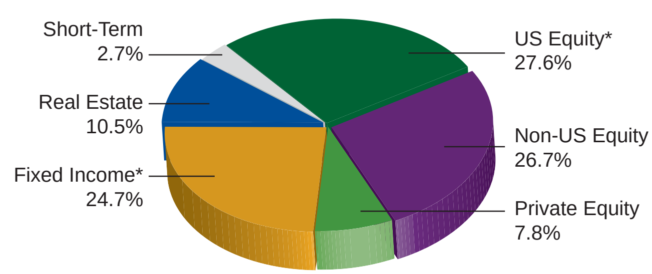
*Hedge Funds are included in US Equity and Fixed Income Fair Values.

Asset Allocation – Total Fund as of June 30, 2009

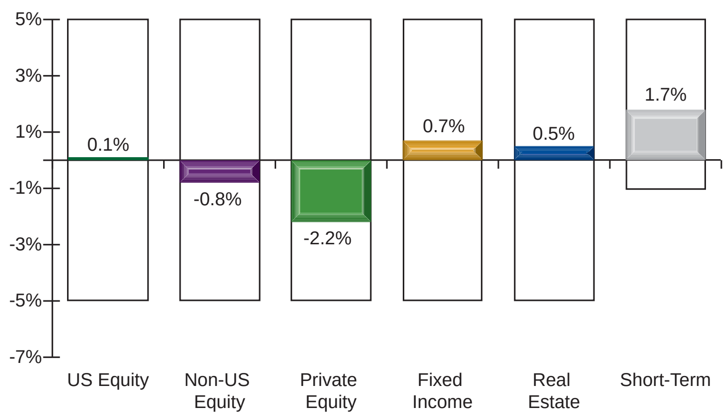
POLICY ALLOCATION



ASSET ALLOCATION



Asset Allocation vs. Policy



Note: Boxes represent permissible ranges around policy target weights.

SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO
300 EAST BROAD ST., SUITE 100 • COLUMBUS, OHIO 43215-3746 • 614-222-5853
Toll-Free 1-866-280-7377 • www.ohsers.org

JAMES R. WINFREE
Executive Director

LISA J. MORRIS
Deputy Executive Director

December 4, 2009

Retirement Board, Members, and Beneficiaries 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, 2009. Information in this section was compiled by SERS' Investment and Finance Staff, and Mellon Analytical Solutions.

Fiscal year 2009 was a very difficult year for SERS' Investment portfolio. Except for fixed income, all of the portfolios including the Total Fund had negative returns for the fiscal year.

During the fiscal year, the Board approved:

- Hiring four US equity managers, one Non-US equity manager and two fixed income managers.
- Dismissing two US equity managers, one Non-US equity manager and one fixed income manager.
- Committing funds to twenty-five hedge funds, five private equity partnerships and two real estate funds.

Details about each portfolio 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 do our best 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 (ORC) 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, 2009, SERS' policy portfolio and its corresponding benchmark were as follows:

Asset Allocation		Benchmark
• 27.5%	US Equities	Russell 3000 Index
• 27.5%	Non-US Equities	MSCI All Country World Free ex-US Index 50% Hedged
• 10.0%	Global Private Equity	S&P 500 Index + 3% (one quarter in arrears)
• 24.0%	Global Fixed Income	Barclays Aggregate Bond Index
• 10.0%	Global Real Estate	80% NCREIF Property Index (one quarter in arrears) & 20% FTSE EPRA/NAREIT Developed Index
• 1.0%	Short-Term	Citigroup 30-Day US Treasury Bill Index

INVESTMENT STRATEGIES

Asset Allocation Based on the recommendation of SERS' Investment Consultant, Summit Strategies Group, and Staff, SERS' Board adopted new asset allocation targets in January 2009. The allocation to private equity was increased to 10% and the allocations to US equities and Non-US equities were reduced to 27.5% each. There were no additional changes to the asset allocation structure of the Fund during the 2009 fiscal year. SERS' hedge fund consultant, Aksia Research and Management Company, assisted the Board and Staff in continued construction of a hedge fund program and selection of hedge fund managers.

Diversification Broad diversification within an investment portfolio is used to control the level of risk and volatility within the portfolio over the long term. 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 over the long term.

INVESTMENT PERFORMANCE

Long-Term Investment Performance SERS' Total Fund experienced a negative return during the fiscal year as did most large institutional investors. The negative return for the year caused a negative return for the trailing three years. Although the trailing five- and ten-year returns are positive, they are still below SERS' actuarial rate of 8.0%.

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

Fiscal Year 2009 As mentioned earlier, only the fixed income portfolio had a positive return for the fiscal year. However, the return of the fixed income portfolio was not strong enough to offset the negative returns of the other portfolios in the Fund. The Total Fund return was a negative 21.8% for the fiscal year versus a negative 19.1% return for its benchmark.

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

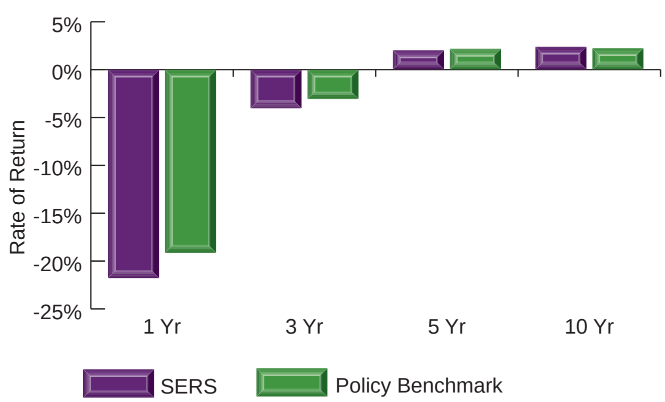
						Annualized Rates of Return		
	2009	2008	2007	2006	2005	3 Years	5 Years	10 Years
US Equity								
SERS(1)*	(26.8)%	(15.1)%	18.8%	10.8%	7.3%	(9.6)%	(2.6)%	(1.7)%
Russell 3000 Index	(26.6)	(12.7)	20.1	9.6	8.1	(8.4)	(1.8)	(1.5)
Non-US Equity								
SERS	(29.9)	(9.8)	34.3	30.4	19.3	(5.3)	5.7	2.9
Custom Non-US Equity Benchmark(2)*	(27.1)	(10.2)	29.6	27.8	16.9	(5.3)	4.9	2.3
Private Equity								
SERS(3)*	(17.2)	19.0	22.5	23.2	7.7	6.5	9.9	4.4
Custom Private Equity Benchmark(4)*	(35.1)	(2.1)	14.8	14.7	9.7	(10.0)	(1.7)	(0.7)
Hedge Funds								
SERS	(8.4)	(0.6)	n/a	n/a	n/a	n/a	n/a	n/a
HFRI Fund Weighted Composite Index	(10.1)	(1.3)	n/a	n/a	n/a	1.3	5.0	7.0
Fixed Income								
SERS	4.8	3.2	6.6	0.4	7.0	4.9	4.4	6.0
Barclays Aggregate Bond Index	6.1	7.1	6.1	(0.8)	6.8	6.4	5.0	6.0
Real Estate								
SERS(5)*	(35.2)	8.3	14.3	20.7	22.4	(7.1)	3.5	5.9
Custom Real Estate Benchmark(6)*	(16.8)	7.8	16.0	20.1	19.2	1.3	8.2	9.1
Short-Term								
SERS(7)*	2.8	4.4	5.5	4.4	2.4	4.2	3.9	3.9
Citigroup 30-Day Treasury Bill Index	0.5	3.0	5.0	4.0	2.0	2.8	2.9	2.9
Total Fund (Gross of Fees)								
SERS(8)*	(21.8)	(5.3)	19.3	13.2	10.5	(4.1)	2.0	2.4
Policy Benchmark(9)*	(19.1)	(4.6)	18.0	11.0	10.3	(3.1)	2.2	2.3
Total Fund (Net of Fees)								
SERS(8)*	(22.4)	(5.7)	18.7	12.7	10.1	(4.6)	1.5	2.0
Policy Benchmark(9)*	(19.1)	(4.6)	18.0	11.0	10.3	(3.1)	2.2	2.3

Source: Mellon Analytical Solutions

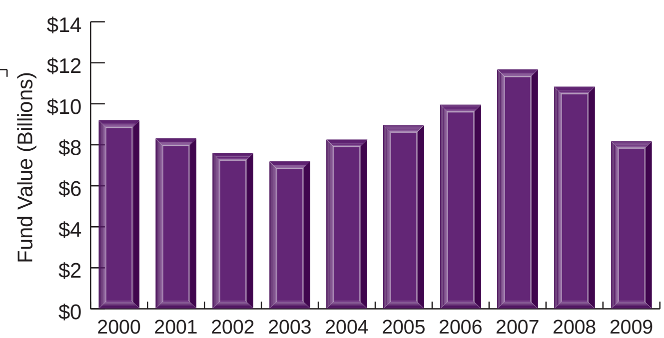
Investment results provided by Mellon Analytical Solutions are based upon a time-weighted rate of return methodology. The returns do not reflect the private equity, real estate, or commingled fund quarter-in-arrears or fair market value adjustments made to the financial statements.

*See footnotes to table on page 53.

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



Total Fund at Fair Value



US Equity

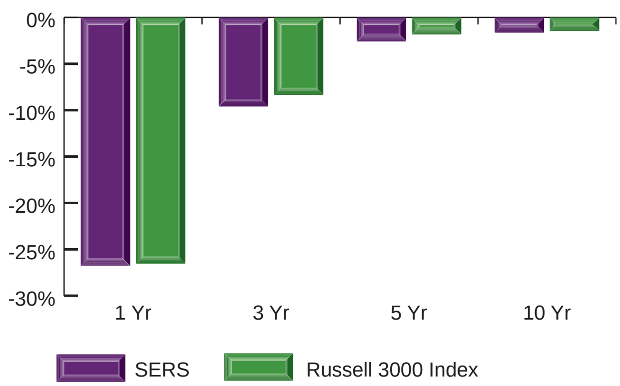
For the fiscal year ended June 30, 2009, SERS' US equity portfolio declined 26.8% versus a decline of 26.6% for its benchmark, the Russell 3000 Index. Fiscal 2009 performance pulled the longer term average US equity performance down. As a result, SERS' US equity portfolio has underperformed its benchmark on an annualized basis over the past three years by 1.2%, over the past five years by 0.8%, and over the past ten years by 0.2%.

The first nine months of the fiscal year were brutal. The financial meltdown which resulted from the housing bubble, mortgage fiasco, Lehman bankruptcy, etc., nearly destroyed the entire economic system. The impact was widespread and deep. Short-term results were so poor, long-term results were driven to historic low levels. As of March 9, 2009, US equities had produced the worst-ever ten-year return (6.3%).

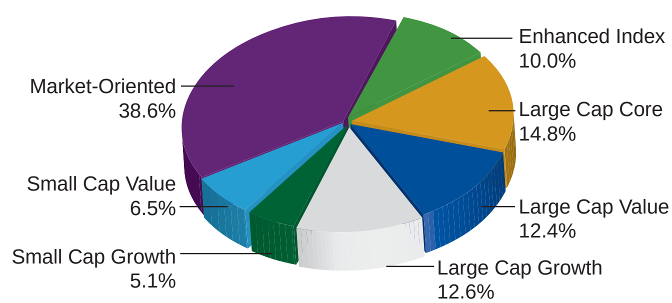
There was amazing uniformity across the capitalization spectrum. Performance was equally poor from mega cap to micro cap. The Russell Top 200 Index (which represents the largest or mega cap stocks) fell 25.1%. The Russell 1000 Index (which represents large and mid cap stocks) fell 26.7%. The Russell 2000 Index (which represents small cap stocks) fell 25.1%. The Russell Microcap Index (which represents the smallest or micro cap stocks) fell 24.5%. Growth outperformed value across all capitalizations primarily due to the poor performance of financial stocks. The negative impact of financials was especially strong at the upper end of the market cap range. The Russell Top 200 Growth Index fell 22.0% compared to the Russell Top 200 Value Index, which decreased 28.4%. The Russell 1000 Growth Index fell 24.5% compared to the Russell 1000 Value Index, which decreased 29.0%. The Russell 2000 Growth Index fell 24.9% compared to the Russell 2000 Value Index, which decreased 25.3%.

Upon recommendation from Staff, the Board approved terminating two managers, transitioning one manager to a new mandate and hiring four new managers during the fiscal year. During the year the target allocation to US equity was reduced from 29.0% to 27.5%.

US EQUITY RETURNS



US EQUITY ALLOCATIONS



LARGEST INDIVIDUAL US EQUITY HOLDINGS AS OF JUNE 30, 2009

	Description	Shares	Market Price	Fair Value
1	Exxon Mobil Corp.	708,832	$ 69.91	$ 49,554,445
2	Microsoft Corp.	1,176,434	23.77	27,963,836
3	Qualcomm, Inc.	615,280	45.20	27,810,656
4	Google, Inc.	60,307	421.59	25,424,828
5	IBM Corp.	226,500	104.42	23,651,130
6	Procter & Gamble Co.	452,671	51.10	23,131,488
7	Chevron Corp.	344,252	66.25	22,806,695
8	AT&T, Inc.	915,828	24.84	22,749,168
9	Johnson & Johnson Co.	383,171	56.80	21,764,113
10	Wyeth Co.	465,733	45.39	21,139,621

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

Non-US Equity

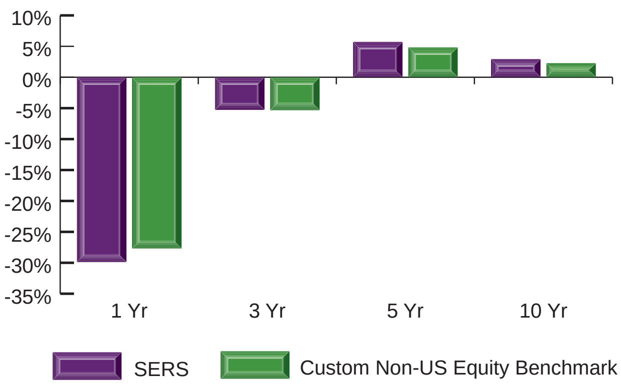
Non-US equities experienced significant deterioration in value over the year regardless of region, sector, or style. Unprecedented volatility in global markets negatively affected SERS' performance as it did other investors in Non-US equities. SERS' return for the fiscal year was (29.9%), which underperformed the policy benchmark (MSCI All-Country World ex-US Index with developed countries 50% hedged) by 2.8%. SERS' Non-US equity portfolio continued to outperform relative to the benchmark in the three-, five-, and ten-year periods.

After six consecutive quarters of negative returns, equity markets finally hit bottom in March 2009, then swiftly rebounded. Emerging markets led the global recovery with strong performance coming from China, India and Brazil. Equity returns from international developed markets outperformed the US market over the first half of calendar year 2009 and posted some of the highest returns on record during the second quarter. Sectors that outperformed were those that suffered the most over the first half of the fiscal year namely, financials, materials, and consumer discretionary. The dramatic recovery suggests that massive stimulus packages by numerous global governments, especially the United States and China, had taken effect providing a brake to what had been a persistent free fall.

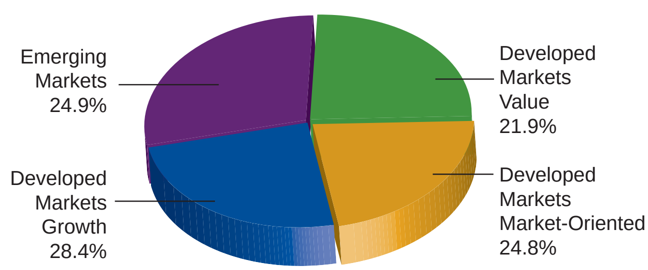
Dollar-denominated returns of Non-US equity markets were enhanced by the strength of local currencies relative to the US dollar. The US dollar was a safe haven during recent market volatility but after peaking in February 2009, depreciated against most major currencies as global markets stabilized. Concerns over the trade deficit and the threat of inflation resulting from costly stimulus packages continue to push the US dollar downward.

During the fiscal year, an emerging markets small cap manager was funded and a Non-US manager that managed two emerging market products and one developed market product was terminated. During the year, the target allocation to Non-US equity was reduced from 29.0% to 27.5%.

NON-US EQUITY RETURNS



NON-US EQUITY ALLOCATIONS



LARGEST INDIVIDUAL NON-US EQUITY HOLDINGS AS OF JUNE 30, 2009

	Description	Country	Shares*	Market Price	Fair Value
1	Novartis AG	Switzerland	621,747	$ 40.49	$ 25,177,467
2	Telefonica SA	Spain	1,075,360	22.61	24,314,665
3	Nestle SA	Switzerland	551,954	37.63	20,767,750
4	GlaxoSmithKline PLC	United Kingdom	1,133,761	17.60	19,950,326
5	BP PLC	United Kingdom	2,439,189	7.87	19,193,120
6	China Mobile Ltd.	Hong Kong	1,762,353	10.01	17,646,161
7	Canon, Inc.	Japan	508,338	32.75	16,648,688
8	Takeda Pharmaceutical Co., Ltd.	Japan	398,581	38.97	15,532,606
9	Total SA	France	258,889	53.97	13,973,249
10	Astrazeneca	United Kingdom	298,860	43.98	13,143,586

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.*

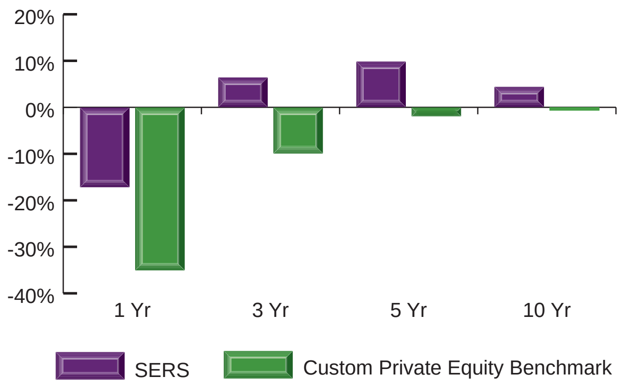
Global Private Equity

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.

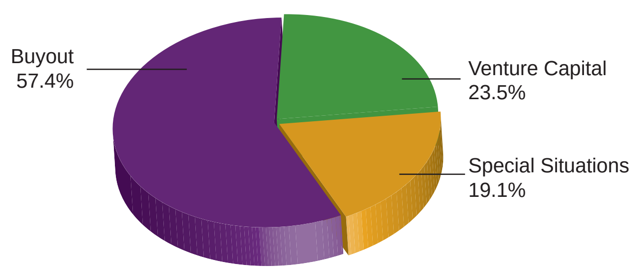
As of June 30, 2009, the market value of SERS' private equity portfolio was $634.6 million, or 7.8% of the Total Fund. Unfunded commitments to private equity partnerships totaled $959.6 million at fiscal year end. Over the past fiscal year, SERS closed on commitments to five private equity partnerships totaling $185 million. Approximately $105 million was committed to US buyout funds, $40 million was committed to a European buyout fund and $40 million was committed to one distressed focused fund. In February 2009, SERS' Board approved an increase in the allocation target to global private equity from 7% to 10%, 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 (17.2%) versus the custom benchmark return of (35.1%). For the three-, five-, and ten-year periods, the private equity portfolio returned 6.5%, 9.9%, and 4.4% 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, 2009

	Description	Fair Value
1	Thomas H. Lee Equity Fund VI, LP	$ 30,870,025
2	Horsley Bridge Fund VIII, LP	29,484,156
3	GS Distressed Opportunities III, LP	29,329,884
4	Horsley Bridge International III, LP	26,020,004
5	Horsley Bridge VII, LP	22,123,170
6	FS Equity Partners V, LP	20,274,986
7	Performance Venture Capital, LP	19,323,485
8	Warburg Pincus Private Equity X, LP	19,319,503
9	Providence Equity Partners VI, LP	19,299,151
10	Kohlberg Investors V, LP	18,894,696

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

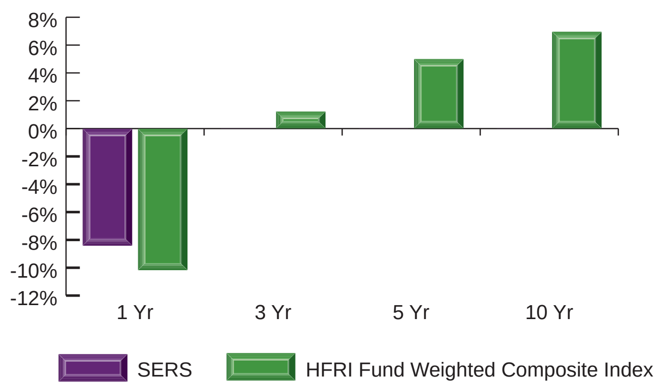
Global Hedge Funds

SERS invests in hedge funds for purposes of diversification, risk reduction, and return enhancement. The global hedge fund portfolio, consisting of 34 funds as of June 30, 2009, is highly diversified across geographical regions, sectors, and strategies, including equity long-short strategies (39%), event-driven strategies (30%), relative value strategies (16%), and tactical trading strategies (15%).

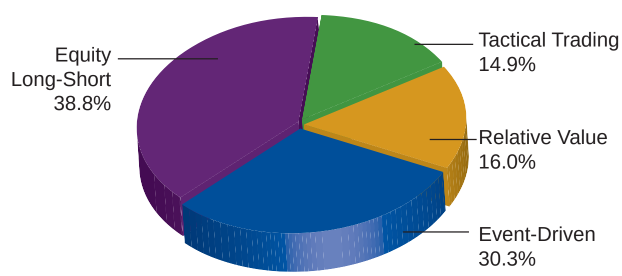
SERS' Investment Policy Statement limits hedge fund investments to 10% of total assets. As of June 30, 2009, hedge funds represented 6.0% of total assets. SERS invested $374 million in hedge funds and added 25 new funds to the portfolio during the fiscal year, despite suspending additional hedge fund subscriptions for five months during the fiscal year.

Hedge funds experienced unprecedented drawdowns during the second half of calendar year 2008, as many were forced to rapidly reduce leverage in a very illiquid market. Investors with their own liquidity issues flooded hedge funds with redemption requests three to four times greater than normal, forcing many funds to suspend and/or gate redemptions. These factors, combined with counterparty issues and short-selling bans, made for a hostile investment environment. Liquidity is slowly returning to the markets in 2009, and hedge fund returns for the most part have been strong.

GLOBAL HEDGE FUNDS RETURNS



ALLOCATION BY STRATEGY



LARGEST INDIVIDUAL GLOBAL HEDGE FUND HOLDINGS AS OF JUNE 30, 2009

	Description	Fair Value
1	Regiment Capital Ltd.	$ 30,440,637
2	King Street Capital Ltd.	29,110,515
3	Bridgewater Pure Alpha Fund I	28,319,997
4	Viking Global Equities III Ltd.	27,773,244
5	Diamondback Offshore Fund, Ltd.	27,178,047
6	Taconic Opportunity Offshore Fund Ltd.	24,605,572
7	Cantillon Europe Ltd.	21,389,638
8	Visium Balanced Offshore Fund, Ltd.	17,203,088
9	PIMCO Absolute Return Strategy III Offshore Fund Ltd.	16,358,011
10	Tudor BVI Global Fund Ltd.	15,594,600

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

INVESTMENT SECTION

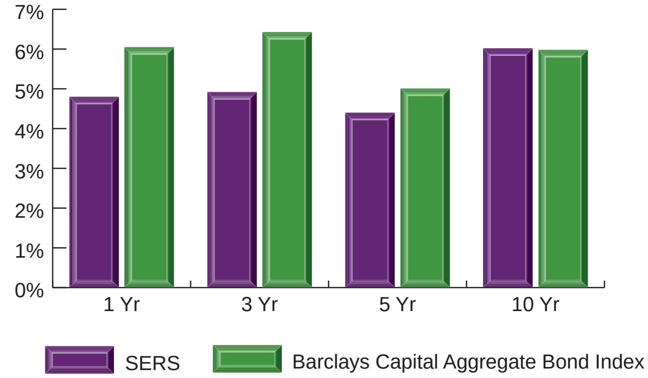
Global Fixed Income

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 fixed income managers employing proven investment strategies to help SERS meet its goals and objectives.

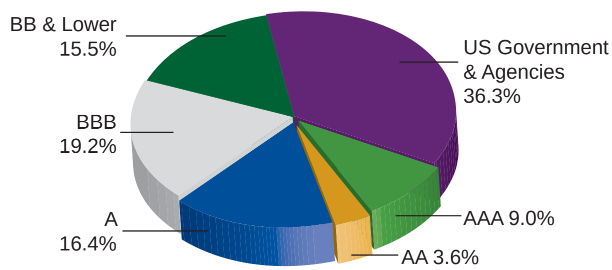
For the fiscal year ended June 30, 2009, SERS' fixed income portfolio underperformed the benchmark Barclays Aggregate Bond Index by 125 basis points, returning 4.8% against the index return of 6.1%. Returns suffered as SERS' fixed income managers over weighted corporate bonds. The subprime crisis continued with the credit markets freezing after Lehman Brothers declared bankruptcy in September 2008. The market continued to seek refuge in US Treasuries with all other fixed income market sectors lagging through the fall. Government market liquidity and economic stimulus programs began working this spring with a big corporate and mortgage rally. SERS restructured its core plus portfolio during the fiscal year, terminating one manager and hiring two managers.

The Federal Reserve cut the federal funds rate three times during the fiscal year to 0 – 0.25%, 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 413 basis points by year end. SERS' investment managers collectively decreased duration slightly from the prior fiscal year to 4.4 years.

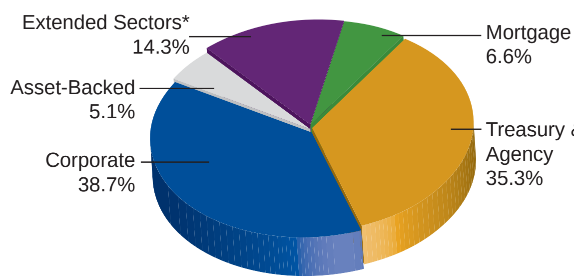
GLOBAL FIXED INCOME RETURNS



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, 2009

	Description	Rating	Par Value	Market Price	Fair Value
1	FNMA TBA 5.0% 07/01/2039	AAA	$41,700,000	$ 1.02	$42,456,021
2	FNMA TBA 5.5% 07/01/2039	AAA	30,000,000	1.03	30,965,700
3	US Treasury Note .875% 03/31/2011	AAA	20,000,000	1.00	19,978,900
4	FNMA Pool #0968066 6.0% 10/01/2022	AAA	14,368,872	1.06	15,239,051
5	Ford Motor Credit Co. 7.375% 02/01/2011	BB-	16,825,000	0.91	15,231,168
6	FNMA TBA 6.0% 07/01/2039	AAA	12,300,000	1.05	12,853,500
7	FHLMC TBA 6.5% 07/01/2038	AAA	11,300,000	1.06	12,006,250
8	General Motors Acceptance Corp. 6.875% 09/15/2011	CCC	13,528,000	0.88	11,837,000
9	FNMA TBA 4.5% 07/01/2039	AAA	11,770,000	1.00	11,744,224
10	FHLMC Pool #G3-0320 6.0% 07/01/2025	AAA	10,393,782	1.05	10,930,668

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

Global Real Estate

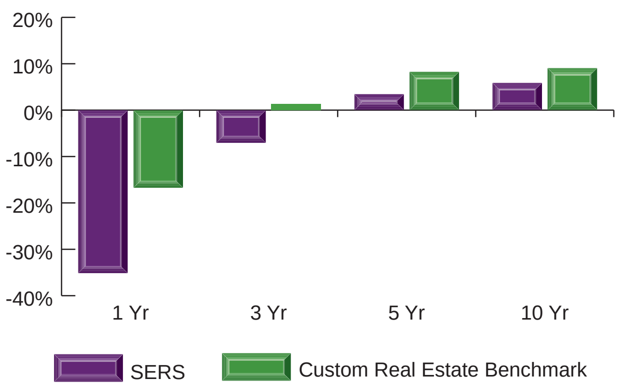
SERS invests in real estate to provide stable long-term rates of returns and to diversify its assets in order to reduce total fund volatility. SERS' global real estate portfolio consists primarily of investments in office buildings, shopping centers, apartment communities, and industrial facilities in 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, 2009, the real estate portfolio was approximately $857.7 million, or 10.5% of the Total Fund. Unfunded commitments to real estate funds totaled approximately $267.7 million at fiscal year end. During the past fiscal year, SERS made commitments to two real estate funds totaling $100.0 million. The new commitments targeted opportunistic real estate strategies in the US and Asia.

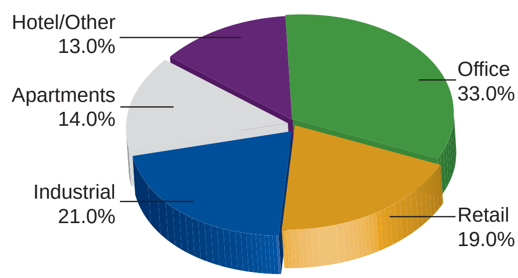
Real estate markets around the world suffered from the effects of the global recession, lack of financing options, continued loss of jobs, and lack of transaction activity. The result, declining commercial real estate values, which were once isolated to public REITs and select regions such as the UK, became global in magnitude during the fiscal year. Global REITs declined in value nearly 36% during the fiscal year per FTSE EPRA/NAREIT Developed Index. Private market commercial real estate in the US declined nearly 20% during the fiscal year as measured by the NCREIF Property Index.

During the fiscal year, SERS' real estate portfolio produced a total return of (35.2%) versus the custom real estate benchmark return of (16.8%). For three-, five-, and ten-year periods, the real estate portfolio produced returns of (7.1%), 3.5%, and 5.9% respectively. All returns, except REITs, are reported one quarter in arrears.

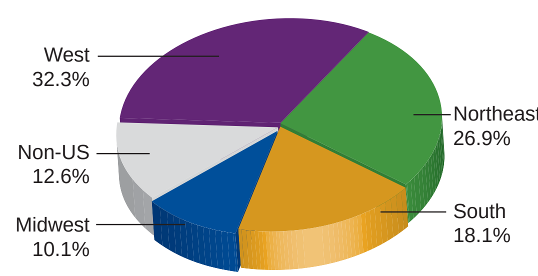
GLOBAL REAL ESTATE RETURNS



PROPERTY TYPE DIVERSIFICATION



REGIONAL DIVERSIFICATION



LARGEST INDIVIDUAL GLOBAL REAL ESTATE HOLDINGS AS OF JUNE 30, 2009

	Description	Fair Value
1	J.P. Morgan Strategic Property Fund	$105,132,755
2	ING Clarion Lion Properties Fund	66,701,653
3	UBS Realty Separate Account	65,743,308
4	RREEF America II	62,730,547
5	Prudential RISA II	53,691,234
6	ING Clarion Lion Industrial Trust	43,175,361
7	Prudential RISA	41,449,344
8	Carlyle Realty Partners V	33,113,768
9	CB Richard Ellis Strategic Partners IV	26,833,770
10	CB Richard Ellis Strategic Partners Europe III	25,642,169

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
- Arnhold and S. Bleichroeder Advisors
- Aronson + Johnson + Ortiz
- Delaware Investments
- DePrince, Race and Zollo
- Donald Smith & Company, Inc.
- Globeflex Capital
- INTECH Investment Management
- Jacobs Levy Equity Management
- Lord, Abbett & Co.
- Manning & Napier Advisors, Inc.
- Neuberger Berman
- PENN Capital Management
- State Street Global Advisors

Investment Managers – Non-US Equity
- Acadian Asset Management
- Arrowstreet Capital
- Artio Global Management
- AXA Rosenberg Investment Management
- Dimensional Fund Advisors
- Globeflex Capital
- LSV Asset Management
- McKinley Capital Management, Inc.
- Mondrian Investment Partners Limited
- Morgan Stanley Investment Management Limited
- Pictet Asset Management Limited
- Scottish Widows Investment Management
- State Street Global Advisors
- TT International
- 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 Capital Limited
- Charterhouse Capital Partners
- CID Capital
- Cinven Limited
- Coller Capital
- Evergreen Pacific Partners
- FdG Associates
- FS Equity Partners
- Goldman Sachs & Company
- 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
- Oaktree Capital Management
- 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
- Artio Global Management
- Dodge & Cox, Inc.
- Goldman Sachs & Company
- Johnson Investment Counsel, Inc.
- Loomis, Sayles & Company
- Western Asset Management Company

Investment Managers – Hedge Funds
- Angelo, Gordon & Co.
- Aristeia Capital
- BlueCrest Capital Management
- Brevan Howard Asset Management
- Bridgewater Associates, Inc.
- Brookside Capital Investors
- Cantillon Capital Management
- D.E. Shaw Investment Management
- Davidson Kempner Capital Management
- Diamondback Capital Management
- Elm Ridge Capital Management
- Fore Research and Management
- Glenview Capital Management
- GoldenTree Asset Management
- HealthCor Management
- Horseman Capital Management
- Karsch Capital Management
- King Street Capital Management
- Lansdowne Partners Limited Partnership
- Linden Advisors
- Loch Capital Management
- Marathon Asset Management
- Pacific Investment Management Company
- Paulson & Co.
- Regiment Capital Management
- Renaissance Technologies
- Samlyn Capital
- Stark Offshore Management
- Taconic Capital Advisors
- Theorema Asset Management Limited
- Tudor Investment Corporation
- ValueAct Capital Management
- Viking Global Investors
- Visium Asset Management

Investment Managers – Real Estate
- AEW Capital Management
- Beacon Capital Partners
- BlackRock Realty
- CB Richard Ellis Investors
- Colony Capital
- Fillmore Capital Partners
- ING Clarion Real Estate
- INVESCO Realty Advisors
- J.P. Morgan Investment Management, Inc.
- KBS 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

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, 2009

Broker Name	Fees Paid	# of Shares Traded	Avg. Commission per Share
Jefferies & Co.	$ 331,269	10,637,469	$ 0.031
Instinet Clearing Services, Inc.	125,677	6,439,123	0.020
Investment Technology Group, Inc.	119,212	14,661,149	0.008
Goldman, Sachs & Co.	105,061	6,302,193	0.017
Cantor Fitzgerald & Co., Inc.	98,413	3,158,383	0.031
JonesTrading Institutional Services, LLC	89,480	2,748,101	0.033
Liquidnet, Inc.	81,212	3,891,336	0.021
Barclays Capital	80,508	6,367,300	0.013
Deutsche Bank Securities, Inc.	77,884	7,322,879	0.011
UBS Warburg, LLC	72,724	21,468,436	0.003
Merrill Lynch, Pierce, Fenner & Smith, Inc.	70,710	3,205,404	0.022
Morgan Stanley & Co., Inc.	69,224	3,444,720	0.020
First Boston	64,345	4,065,096	0.016
CitiGroup Global Markets, Inc.	55,126	2,056,019	0.027
Westminister Securities Corp.	46,894	1,563,135	0.030
BNY ConvergEx Execution Solutions, LLC	43,053	2,306,202	0.019
J.P. Morgan Securities, Inc.	40,089	1,580,095	0.025
RBC Capital Markets Corp.	33,782	1,009,901	0.033
Wachovia Capital Markets, LLC	33,272	969,640	0.034
Raymond, James & Associates, Inc.	33,213	843,800	0.039
Citation Financial Group, LP	32,000	1,958,643	0.016
ICAP Securities USA, LLC	30,436	890,520	0.034
Guzman and Co.	25,512	1,373,800	0.019
Pershing, LLC	24,615	676,694	0.036
Thomas Weisel Partners, LLC	22,253	742,410	0.030
Fox-Pitt Kelton, Inc.	21,978	742,495	0.030
Cowen & Co., LLC	19,001	673,400	0.028
Rosenblatt Securities, LLC	18,972	1,310,634	0.014
Bernstein, Sanford C., & Co., Inc	18,619	505,714	0.037
Pipeline Trading Systems, LLC	18,250	672,170	0.027
Fidelity Capital Markets	17,530	894,800	0.020
Cap Institutional Services, Inc.	15,784	777,210	0.020
Stifel Nicolaus Co., Inc.	13,894	362,630	0.038
Lehman Brothers, Inc.	13,677	1,175,845	0.012
Weeden & Co., Inc.	13,533	684,732	0.020
Credit Suisse Securities, LLC	13,288	352,500	0.038
Griswold Co.	12,369	989,490	0.012
Avian Securities, Inc.	11,804	594,400	0.020
Keybank Capital Markets, Inc.	10,896	332,265	0.033
Pension Financial Services, Inc.	9,678	306,400	0.032
Keefe, Bruyette & Woods, Inc.	9,091	267,334	0.034
Collins Stewart, Inc.	8,149	258,662	0.032
Brokers with less than $8,100 (98)	144,639	18,085,668	0.008
Total US	$ 2,197,116	138,668,797	$ 0.016

INVESTMENT SECTION

Summary Schedule of Brokers' Fees for Non-US Equity Transactions for the year ended June 30, 2009

Broker Name	Fees Paid	# of Shares Traded	Avg. Commission per Share
Credit Suisse Securities, LLC	$ 284,580	360,340,376	$ 0.001
Merrill Lynch, Pierce, Fenner & Smith, Inc.	272,343	202,451,151	0.001
State Street Global Markets, LLC	267,654	536,591,374	0.000
J.P. Morgan Securities, Inc.	243,939	253,159,699	0.001
CitiGroup Global Markets, Inc.	228,899	223,669,463	0.001
Morgan Stanley & Co., Inc.	219,920	260,930,905	0.001
UBS Securities, LLC	206,309	208,764,982	0.001
Pershing Securities Ltd.	175,966	116,611,640	0.002
SG Securities	135,900	218,121,156	0.001
Deutsche Bank AG	132,885	156,556,342	0.001
Instinet Clearing Services, Inc.	96,033	139,909,943	0.001
MacQuarie Securities Ltd.	95,988	51,809,094	0.002
Nomura Securities International, Inc.	91,177	68,964,679	0.001
Credit Lyonnais Securities, Inc.	76,816	56,363,300	0.001
Credit Agricole Cheuvreux	49,480	29,052,885	0.002
ABN Amro Bank NV	46,719	23,583,181	0.002
Brockhouse & Cooper, Inc.	46,215	33,661,495	0.001
HSBC Securities, Inc.	44,829	63,813,014	0.001
Union Bank Securities	38,985	24,743,616	0.002
ITG, Inc.	33,228	17,932,810	0.002
KBC Financial Products Ltd.	33,180	57,224,986	0.001
Euroclear Bank	32,827	33,212,764	0.001
Ridge Clearing & Outsourcing	27,565	51,333,601	0.001
Jefferies & Co.	27,049	15,375,649	0.002
Exane SA	25,746	5,617,946	0.005
Cantor Fitzgerald & Co., Inc.	22,280	63,856,044	0.000
Lehman Brothers, Inc.	22,018	20,896,853	0.001
Daiwa Securities America, Inc.	17,959	13,515,685	0.001
Calyon Securities	17,933	11,626,489	0.002
BNP Paribas SA	16,288	13,073,192	0.001
Tera Menkul Degerler A.S.	14,936	11,134,238	0.001
Bernstein, Sanford C., & Co., Inc	14,213	6,553,462	0.002
Societe Generale Securities, LLC	14,086	12,121,649	0.001
Agora Corde Titul E Val Mob	14,029	7,014,117	0.002
Cap Institutional Services, Inc.	12,113	1,396,457	0.009
Kepler Equities	11,929	17,841,671	0.001
China International Capital Corp.	11,634	12,890,608	0.001
Mitsubishi UFJ Financial Group	11,304	15,624,382	0.001
Dresdner Kleinworth Wasserstein Securities LLC	11,270	11,534,141	0.001
Liquidnet, Inc.	10,800	4,264,778	0.003
Banco Santander	10,381	7,434,781	0.001
KAS Bank NV	9,959	6,628,830	0.002
MainFirst Bank AG	9,573	13,844,376	0.001
Brokers with less than $9,500 (146)	229,151	182,409,880	0.001
Total Non-US	$ 3,416,088	3,643,457,684	$ 0.001

Investment Notes

Investment Summary

Portfolio Type	Fair Value	% of Total Fair Value
US Equity	$ 2,262,624,871	27.6%
Non-US Equity	2,186,943,686	26.7
Private Equity	634,613,553	7.8
Fixed Income	2,020,069,372	24.7
Real Estate	857,691,521	10.5
Short-Term	225,158,598	2.7
Net Portfolio Value	$ 8,187,101,601	100.0%

Reconciliation to Statement of Plan Net Assets	
Net Portfolio Value	$ 8,187,101,601
Accrued Income and Expenses	290,761
Accounts receivable, securities sold	(99,698,314)
Accounts payable, securities purchased	278,403,906
Cash and cash equivalents	(564,499,111)
Investments per Statement of Plan Net Assets	$ 7,801,598,843

Investment Results

FOOTNOTES TO INVESTMENT RESULTS TABLE ON PAGE 43:

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

(2) From inception to July 1997 - 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 quarter ending 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 ending June 30, 2002.

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

(5) The real estate composite returns are reported one quarter in arrears beginning with the quarter ending June 30, 2002, 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 ending June 30, 2002. Public real estate returns are reported in the current quarter.

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

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

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

(9) On February 1, 2009, the SERS benchmark weighting was changed to 27.5% Russell 3000 Index, 27.5% MSCI AC World Free ex-US Index (50% developed markets hedged), 24% Barclays Aggregate Index, 10% SERS Real Estate Custom Benchmark, 10% Private Equity Benchmark, and 1% CitiGroup 30 Day T-Bill Index. This change superseded the benchmark that was implemented on May 31, 2007 of 29% Russell 3000 Index, 29% MSCI AC World Free ex-US Index (50% developed markets hedged), 24% Barclays 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 May 31, 2007, 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) reflects 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	27.5%	22.5% - 32.5%
International	27.5%	22.5% - 32.5%
Global Private Equity	10%	5% - 15%
Fixed Income	**35%**	**30% - 40%**
Global Bonds	24%	19% - 29%
Global Real Estate	10%	5% - 15%
Cash Equivalents	1%	0% - 5%

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.

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 Index 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% FTSE EPRA/NAREIT Global Real Estate Index
Cash Equivalents	Citigroup 30-day T-Bill Index

D. Performance Benchmarks – Hedge Funds

Hedge Funds will be measured against performance benchmarks at the portfolio level, as follows:

1. The performance benchmark for Absolute Return Hedge Fund Portfolios will be the HFRI Fund Weighted Composite Index; and
2. The performance benchmark for Portable Alpha Hedge Fund Portfolios funded from the Domestic Equity Asset Class will be the Standard & Poor’s 500 Index.

Portable Alpha Portfolio Performance will be net of the cost of providing the underlying beta.

E. 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 8/01/08; 2/21/08; 10/01/07; 10/20/05; 9/15/00; 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.

Assessment Aide, Malissa Hubbard, Park St. Intermediate

Actuarial Section

Cavanaugh Macdonald
CONSULTING, LLC
The experience and dedication you deserve

November 12, 2009

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, 2009 indicates that a contribution rate of 13.54% of payroll for 125,465 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 30 year amortization of unfunded actuarial accrued liabilities; and

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

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

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Board of Trustees
November 12, 2009
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. Since total claims are projected to exceed total contributions in future years, it is currently anticipated that future reserve fund amounts will be depleted in 2014.

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 as well as the expected asset losses that will be reflected in the smoothed actuarial value of assets over the next three years absent significant asset gains in those years, it is our opinion that the School Employees Retirement System of Ohio will only continue in sound condition in accordance with actuarial principles of level percent of payroll financing with benefit reductions and/or contribution rate increases from employers, members or both.

Sincerely,

Thomas J. Cavanaugh

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

TJC:kc

S:\Ohio SERS\2009\Miscellaneous Correspondence\Board of Trustees letter

ACTUARIAL SECTION

Pension

Summary of Actuarial Assumptions and Methods

The SERS Board 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 reports.

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 2009, 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, 2009, the policy required the determination of a rate for basic benefits to cover normal cost and to amortize the unfunded actuarial accrued liabilities over a 30-year period. The remaining portion of the employer contribution was allocated to health care benefits.

Pension Trust Fund	9.06%
Medicare B Fund	.75
Death Benefit Fund	.03
Health Care Fund	4.16
	14.00%

The Ohio Revised Code (ORC) 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 2009, 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, 2009.

- **Investment Return** Net after all System expenses, the return on investments is compounded annually at 8.0%.
- **Inflation Rate** The inflation assumption is 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 3.0% per year after retirement are assumed.
- **Payroll Growth** Salary increases attributable to wage inflation of 4.0% are projected and compounded annually. Additional projected salary increases ranging from 4.5% to 24.75% 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** 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 is the 1994 Group Annuity Mortality Table, set back one year for both men and women. Special mortality tables are 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 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, 2009

Present value of:	Basic Benefits	Medicare B	Death Benefit	Total
Future benefits to present retirees and survivors	$ 7,020,616,458	$ 229,850,404	$ 22,873,638	$ 7,273,340,500
Benefits and refunds to present inactive members	474,505,400	9,613,529	1,550,680	485,669,609
Allowances to present active members				
Service	6,135,268,813	104,851,597	6,128,793	6,246,249,203
Disability	308,882,202	4,791,455	420,216	314,093,873
Survivor benefits	105,772,844	1,812,943	-	107,585,787
Withdrawal	145,090,349	9,846,536	101,390	155,038,275
Total Active AAL	6,695,014,208	121,302,531	6,650,399	6,822,967,138
Total AAL	$ 14,190,136,066	$ 360,766,464	$ 31,074,717	$ 14,581,977,247

Active Member Valuation Data

Actuarial Valuation as of June 30	Number of Active Members	Annual Payroll *(millions)*	Average Annual Salary	% Increase in Average Salary
2009	125,465	$2,787.4	$22,216	4.2%
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

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
2009	3,103	$41,970,065	2,164	$504,642	65,757	$693,838,994	6.4%	$10,552
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

Analysis of Financial Experience

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

	Gain/(Loss) for Year in Millions					
Type of Risk Area	**2009**	**2008**	**2007**	**2006**	**2005**	**2004**
Age and Service Retirements If members retire at older ages than assumed, there is a gain. If younger ages, a loss.	$ (50.8)	$ (96.1)	$ 13.4	$ 37.9	$ (82.6)	$ (45.2)
Disability Retirements If disability claims are less than assumed, there is a gain. If more claims, a loss.	(28.7)	(3.5)	0.9	1.2	2.1	0.0
Death-In-Service Benefits If claims costs are less than assumed, there is a gain. If more claims, a loss.	(0.6)	(0.6)	(0.3)	0.2	(0.7)	0.5
Pay Increases If there are smaller pay increases than assumed, there is a gain. If greater increases, a loss.	107.5	95.8	121.0	76.4	101.6	83.6
Investment Return If there is greater investment return than assumed, there is a gain. If less return, a loss.	(2,265.2)	(6.6)	504.3	44.7	(397.4)	(763.8)
Withdrawal If more liabilities are released by other separations from active membership than assumed, there is a gain. If smaller releases, a loss.	(11.9)	8.1	(73.2)	(52.9)	52.7	56.6
New Members Additional unfunded accrued liability will produce a loss.	(50.4)	(51.3)	(37.2)	(36.7)	(42.7)	(48.6)
Death after Retirement If retirees live longer than assumed, there is a loss. If not as long, a gain.	51.8	72.4	(10.2)	15.8	12.4	23.3
Other Miscellaneous gains and losses resulting from data adjustments, timing of financial transactions, etc.	200.1	81.2	(1.1)	(145.4)	(81.7)	(0.4)
Non-Recurring Items Adjustments for plan amendments, assumption changes, or method changes.	0.0	0.0	0.0	156.5	0.0	0.0
Total Gain/(Loss) During Year	$(2,048.2)	$ 99.4	$ 517.6	$ 97.7	$ (436.3)	$ (694.0)

ACTUARIAL SECTION

Short-Term Solvency Test

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

If the contributions are level in concept and soundly executed, SERS 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 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, 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 SERS has been using level cost financing, the funded portion of active member benefits will increase over time.

	Aggregate Accrued Liabilities for *(in millions)*						
June 30	**(1) Active Member Contributions**	**(2) Retired Members & Beneficiaries**	**(3) Active Members (Employer Portion)**	**(4) Actuarial Value of Assets**	**Portion of Accrued Liabilities Covered by Reported Assets (1)**	**(2)**	**(3)**
2009	$2,470	$7,273	$4,838	$9,836	100%	100%	2%
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

*Reported by prior actuarial firm.

Health Care

Summary of Actuarial Assumptions and Methods

Governmental Accounting Standards Board (GASB) 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 to 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, 2009	$373,789,127	$163,411,488	$23,504,101	$186,915,589	50.0%
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, 2009.

- **Investment Return** Net after all plan expenses, the return on investments is compounded annually at 5.25%.
- **Inflation Rate** The inflation assumption is 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 10.5%, decreasing gradually to 5.0% in year 2016 and beyond.

Calendar Year	Indemnity and PPO	HMO
2009	10.50%	10.00%
2010	9.50	9.00
2011	8.50	8.00
2012	7.50	7.00
2013	6.50	6.00
2014	6.00	5.50
2015	5.50	5.00
2016 and beyond	5.00	5.00

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 is 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** 50% of male retirees will choose spousal coverage, while only 40% 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
35 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, 2009

Present value of benefits payable on account of present retired members and beneficiaries	$1,865,676,342
Present value of benefits payable on account of active members	4,183,581,662
Present value of benefits payable on account of deferred vested members	29,444,061
Total liabilities	$6,078,702,065


Food Service Satellite Helper, Vicky White, Avalon Elementary

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 SERS' overall financial condition.

The schedules and graphs beginning on page 73 show financial trend information about the change in SERS' assets for the past 10 years. These schedules provide detailed information about the trends of key sources of asset additions and deductions, 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 80 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:

- Employee and Employer Contribution Rates
- Demographics of New Pension Benefit Recipients
- Demographics of Active and Retired Members
- Retired Members by Type of Benefit
- Retirees, Spouses, and Dependents Receiving Health Insurance
- Principal Participating Employers
- Average Benefit Payments

Net Assets by Fund

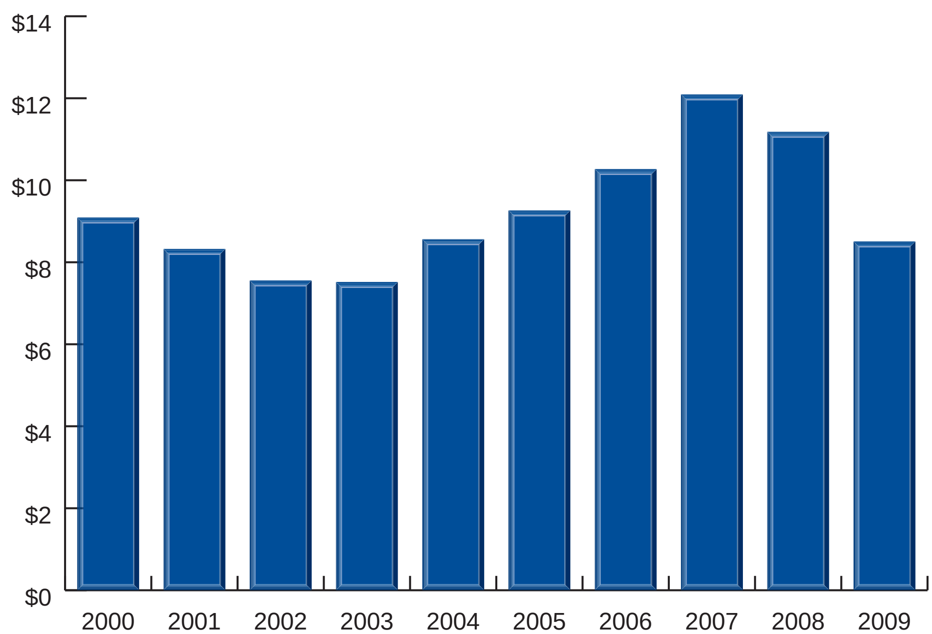
Last 10 years

	Pension Trust Fund	Medicare B Fund	Death Benefit Fund	QEBA Fund	Health Care Fund	Total Net Assets
2009	$ 8,024,889,206	$ 93,243,651	$15,974,467	$74,585	$376,459,222	$ 8,510,641,131
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

*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 billions)*



STATISTICAL SECTION

Changes in Net Assets

Last 10 fiscal years

PENSION TRUST FUND*	2009	2008	2007	2006
ADDITIONS				
Employer Contributions	$ 268,645,839	$ 259,394,723	$ 232,846,344	$ 234,875,166
Employee Contributions	295,788,567	284,910,486	276,759,362	272,615,865
Other Income	–	–	–	610,054
Total Investment Income/(Loss), Net	(2,434,825,781)	(731,527,482)	1,863,226,769	1,080,786,996
TOTAL ADDITIONS	(1,870,391,375)	(187,222,273)	2,372,832,475	1,588,888,081
DEDUCTIONS				
Pension Benefits	696,152,597	650,991,508	606,753,367	569,027,766
Refunds and Lump Sum Payments	34,213,067	38,907,918	33,638,741	31,037,063
Net Transfers to other Ohio Systems	3,224,094	4,723,303	2,873,755	3,587,709
Administrative Expenses	17,694,009	17,652,664	17,453,275	17,416,737
TOTAL DEDUCTIONS	751,283,767	712,275,393	660,719,138	621,069,275
Net increase (decrease)	(2,621,675,142)	(899,497,666)	1,712,113,337	967,818,806
Net assets held in trust:				
Balance, Beginning of Year	10,646,564,348	11,546,062,014	9,833,948,677	8,866,129,871
Balance, End of Year	**$8,024,889,206**	**$10,646,564,348**	**$11,546,062,014**	**$9,833,948,677**

HEALTH CARE FUND	2009	2008	2007	2006
ADDITIONS				
Employer Contributions	$ 163,411,488	$ 158,393,761	$ 170,948,274	$ 157,404,134
Other Income	97,284,347	94,660,706	91,823,048	70,152,335
Total Investment Income/(Loss), Net	(58,751,419)	(18,289,836)	49,307,490	30,524,217
TOTAL ADDITIONS	201,944,416	234,764,631	312,078,812	258,080,686
DEDUCTIONS				
Health Care Expenses	215,409,645	226,436,827	219,438,662	228,570,748
Administrative Expenses	2,756,280	2,002,443	1,846,713	1,430,160
TOTAL DEDUCTIONS	218,165,925	228,439,270	221,285,375	230,000,908
Net increase (decrease)	(16,221,509)	6,325,361	90,793,437	28,079,778
Net assets held in trust:				
Balance, Beginning of Year	392,680,731	386,355,370	295,561,933	267,482,155
Balance, End of Year	**$ 376,459,222**	**$ 392,680,731**	**$ 386,355,370**	**$ 295,561,933**

* 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.

2005	2004	2003	2002	2001	2000**
$ 255,633,456	$ 213,736,648	$ 182,919,583	$ 102,321,473	$ 90,091,402	$ 116,055,089
262,265,550	258,131,243	225,014,540	210,098,081	192,563,026	179,646,558
–	–	–	–	–	256,219
793,539,701	1,098,850,856	91,598,224	(619,870,709)	(605,415,851)	931,723,006
1,311,438,707	1,570,718,747	499,532,347	(307,451,155)	(322,761,423)	1,227,680,872
533,714,925	492,405,489	456,834,182	425,754,214	397,234,511	387,764,962
27,112,818	22,090,604	19,575,616	19,212,728	21,817,451	22,332,580
155,635	2,244,495	917,730	(365,587)	1,538,082	1,185,804
17,379,937	17,402,953	17,664,721	17,029,967	14,975,992	15,414,608
578,363,315	534,143,541	494,992,249	461,631,322	435,566,036	426,697,954
733,075,392	1,036,575,206	4,540,098	(769,082,477)	(758,327,459)	800,982,918
8,133,054,479	7,096,479,273	7,091,939,175	7,861,021,652	8,619,349,111*	8,040,823,067
$8,866,129,871	**$8,133,054,479**	**$7,096,479,273**	**$7,091,939,175**	**$7,861,021,652**	**$8,841,805,985***

2005	2004	2003	2002	2001	2000
$ 126,355,575	$ 159,550,942	$ 171,313,952	$ 218,967,729	$ 236,898,701	$ 187,074,371
40,595,447	27,947,708	15,579,621	13,496,715	10,693,490	9,652,065
19,976,256	34,640,957	3,189,950	(15,550,768)	(11,328,226)	18,262,540
186,927,278	222,139,607	190,083,523	216,913,676	236,263,965	214,988,976
218,816,560	223,443,805	220,510,358	196,443,492	172,133,424	150,348,405
1,489,267	1,391,708	1,249,598	951,010	724,977	302,140
220,305,827	224,835,513	221,759,956	197,394,502	172,858,401	150,650,545
(33,378,549)	(2,695,906)	(31,676,433)	19,519,174	63,405,564	64,338,431
300,860,704	303,556,610	335,233,043	315,713,869	252,308,305	187,969,874
$ 267,482,155	**$ 300,860,704**	**$ 303,556,610**	**$ 335,233,043**	**$ 315,713,869**	**$ 252,308,305**

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

STATISTICAL SECTION

Changes in Net Assets (continued)

Last 10 fiscal years

MEDICARE B FUND*	2009	2008	2007	2006
ADDITIONS				
Employer Contributions	$21,688,294	$ 18,337,305	$ 18,450,617	$ 20,535,685
Other Income	–	–	–	62,510
Total Investment Income/(Loss), Net	(27,612,707)	(8,388,671)	22,332,826	13,538,975
TOTAL ADDITIONS	(5,924,413)	9,988,634	40,783,443	34,137,170
DEDUCTIONS				
Pension Benefits	25,449,935	25,258,432	25,055,794	24,652,637
Administrative Expenses	9,145	5,593	3,336	3,120
TOTAL DEDUCTIONS	25,459,080	25,264,025	25,059,130	24,655,757
Net increase (decrease)	(31,383,493)	(15,275,391)	15,724,313	9,481,413
Net assets held in trust:				
Balance, Beginning of Year	124,627,144	139,902,535	124,178,222	114,696,809
Balance, End of Year	**$93,243,651**	**$124,627,144**	**$139,902,535**	**$124,178,222**

DEATH BENEFIT FUND*	2009	2008	2007	2006
ADDITIONS				
Employer Contributions	$ 734,970	$ 835,348	$ 1,070,630	$ 1,054,246
Other Income	–	–	–	6,889
Total Investment Income/(Loss), Net	(5,218,168)	(1,600,480)	4,265,549	2,571,377
TOTAL ADDITIONS	(4,483,198)	(765,132)	5,336,179	3,632,512
DEDUCTIONS				
Pension Benefits	1,780,430	2,185,460	2,083,437	2,259,722
Administrative Expenses	40,782	41,270	58,465	55,200
TOTAL DEDUCTIONS	1,821,212	2,226,730	2,141,902	2,314,922
Net increase (decrease)	(6,304,410)	(2,991,862)	3,194,277	1,317,590
Net assets held in trust:				
Balance, Beginning of Year	22,278,877	25,270,739	22,076,462	20,758,872
Balance, End of Year	**$15,974,467**	**$22,278,877**	**$25,270,739**	**$22,076,462**

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

QEBA FUND**	2009	2008	2007	2006
ADDITIONS				
Employer Contributions	$115,573	$172,260	$ 82,745	$ 41,850
Other Income	–	–	–	–
Total Investment Income/(Loss), Net	1,109	1,129	32	9
TOTAL ADDITIONS	116,682	173,389	82,777	41,859
DEDUCTIONS				
Pension Benefits	110,465	107,772	85,106	71,298
Administrative Expenses	1,349	799	201	–
TOTAL DEDUCTIONS	111,814	108,571	85,307	71,298
Net increase (decrease)	4,868	64,818	(2,530)	(29,439)
Net assets held in trust:				
Balance, Beginning of Year	69,717	4,899	7,429	36,868
Balance, End of Year	**$ 74,585**	**$ 69,717**	**$ 4,899**	**$ 7,429**

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

2005	2004	2003	2002	2001	2000
$ 17,735,032	$ 17,390,201	$ 15,609,515	$ 16,178,916	$ 3,667,340	
–	–	–	–	–	
10,290,424	14,996,522	872,761	(9,764,147)	(13,761,654)	
28,025,456	32,386,723	16,482,276	6,414,769	(10,094,314)	
24,547,223	24,307,188	23,826,601	23,596,306	56,480,052	
3,000	338,990	329,114	355,585	266,749	
24,550,223	24,646,178	24,155,715	23,951,891	56,746,801	
3,475,233	7,740,545	(7,673,439)	(17,537,122)	(66,841,115)	
111,221,576	103,481,031	111,154,470	128,691,592	195,532,707	
$114,696,809	**$111,221,576**	**$103,481,031**	**$111,154,470**	**$128,691,592**	

2005	2004	2003	2002	2001	2000
$ 759,058	$ 744,272	$ 471,868	$ 456,274	$ 649,974	
–	–	–	–	–	
1,964,827	2,912,708	158,596	(1,771,920)	(1,913,983)	
2,723,885	3,656,980	630,464	(1,315,646)	(1,264,009)	
2,217,881	2,200,147	2,027,422	1,905,283	2,013,003	
54,000	47,202	45,828	49,514	36,689	
2,271,881	2,247,349	2,073,250	1,954,797	2,049,692	
452,004	1,409,631	(1,442,786)	(3,270,443)	(3,313,701)	
20,306,868	18,897,237	20,340,023	23,610,466	26,924,167	
$20,758,872	**$20,306,868**	**$18,897,237**	**$20,340,023**	**$23,610,466**	

2005	2004	2003	2002	2001	2000
$ 36,026	$ 18,600				
–	–				
2	–				
36,028	18,600				
9,572	6,259				
640	1,289				
10,212	7,548				
25,816	11,052				
11,052	–				
$ 36,868	**$ 11,052**				

Benefit and Refund Deductions from Net Assets by Type

Last 10 fiscal years

PENSION BENEFITS	2009	2008	2007	2006
Service Retirement	$595,262,076	$554,521,059	$514,824,466	$481,929,589
Disability Retirement	72,571,590	69,632,988	66,278,496	62,669,473
Survivor Benefits	28,318,931	26,837,461	25,650,405	24,428,704
Total Pension Benefits	$696,152,597	$650,991,508	$606,753,367	$569,027,766
Refunds				
Separation	$33,499,028	$38,147,667	$ 33,316,422	$ 29,065,065
Beneficiaries	714,039	760,251	322,319	1,971,998
Total Refunds	$34,213,067	$38,907,918	$ 33,638,741	$ 31,037,063

MEDICARE B REIMBURSEMENT*	2009	2008	2007	2006
Service Retirement	$22,790,277	$ 22,542,191	$ 22,350,668	$ 22,007,666
Disability Retirement	1,340,431	1,334,470	1,317,953	1,278,217
Survivor Benefits	1,319,227	1,381,771	1,387,173	1,366,754
Total Medicare B Reimbursement	$25,449,935	$ 25,258,432	$ 25,055,794	$ 24,652,637

DEATH BENEFITS	2009	2008	2007	2006
Service	$1,538,800	$ 1,965,949	$ 1,880,256	$ 2,062,198
Disability	241,630	219,511	203,181	197,524
Total Death Benefits	$1,780,430	$ 2,185,460	$ 2,083,437	$ 2,259,722

HEALTH CARE EXPENSES	2009	2008	2007	2006
Medical	$112,696,150	$129,186,181	$128,160,112	$131,562,641
Prescription	99,283,588	95,603,763	89,957,159	95,589,547
Other	3,429,907	1,646,883	1,321,391	1,418,560
Total Health Care Expenses	$215,409,645	$226,436,827	$219,438,662	$228,570,748

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

2005	2004	2003	2002	2001	2000
$450,815,396	$413,743,800	$382,324,194	$355,422,159	$330,712,415	$321,397,961
59,656,369	56,956,255	53,859,560	51,081,315	48,349,429	46,244,407
23,243,160	21,705,434	20,650,428	19,250,740	18,172,667	18,315,432
$533,714,925	$492,405,489	$456,834,182	$425,754,214	$397,234,511	$385,957,800
$ 26,667,001	$ 21,496,787	$ 19,269,813	$ 18,483,724	$ 18,850,323	
445,817	593,817	305,803	729,004	2,967,128	
$ 27,112,818	$ 22,090,604	$ 19,575,616	$ 19,212,728	$ 21,817,451	$ 22,332,580

2005	2004	2003	2002	2001**	2000
$ 21,896,392	$ 21,742,514	$ 21,342,363	$ 21,135,767	$ 50,969,689	
1,245,341	1,216,754	1,163,920	1,155,196	2,554,641	
1,405,490	1,347,920	1,320,318	1,305,343	2,955,722	
$ 24,547,223	$ 24,307,188	$ 23,826,601	$ 23,596,306	$ 56,480,052	

2005	2004	2003	2002	2001	2000
$ 2,018,318	$ 1,992,963	$ 1,813,287	$ 1,693,283	$ 1,794,722	$ 1,640,679
199,563	207,184	214,135	212,000	218,281	166,483
$ 2,217,881	$ 2,200,147	$ 2,027,422	$ 1,905,283	$ 2,013,003	$ 1,807,162

2005	2004	2003	2002	2001	2000
$113,102,587	$125,213,303	$119,676,586	$107,055,941	$ 94,577,874	$ 85,170,510
105,195,298	97,155,916	99,511,288	87,642,652	76,695,342	64,810,387
518,675	1,074,586	1,322,484	1,744,899	860,208	367,508
$218,816,560	$223,443,805	$220,510,358	$196,443,492	$172,133,424	$150,348,405

** Legislation provided for a retroactive Medicare B reimbursement.

Employee and Employer Contribution Rates

Last 10 fiscal years

Fiscal Year	Employee Rate	Employer Rate: Pension	Medicare B	Death Benefit	Health Care	Total
2009	10%	9.06%	0.75%	0.03%	4.16%	14%
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

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

Demographics of New Pension Benefit Recipients

Last 10 fiscal years

Average Service Benefit

Year Ended June 30	Service Credit	Monthly Amount	Age	Salary
2009	21.9	$ 1,098	62.6	$ 28,211
2008	22.2	1,095	62.5	27,815
2007	22.1	1,109	62.6	27,827
2006	22.3	1,041	63.0	26,007
2005	22.6	1,042	62.6	26,040
2004	22.5	957	62.4	24,132
2003	22.2	916	62.2	22,965
2002	22.4	892	62.3	22,065
2001	22.1	851	62.3	21,125
2000	22.0	761	63.5	20,230

Average Disability Benefit

Year Ended June 30	Service Credit	Monthly Amount	Age	Salary
2009	16.0	$ 1,306	53.0	$ 29,074
2008	15.0	1,269	53.0	28,538
2007	16.0	1,239	53.0	27,097
2006	16.0	1,252	53.0	27,093
2005	20.4	1,178	53.3	25,960
2004	20.8	1,090	52.5	24,096
2003	21.4	1,127	52.7	24,557
2002	21.2	1,048	52.2	22,637
2001	20.1	1,123	52.4	21,668
2000	16.1	1,004	55.9	21,807

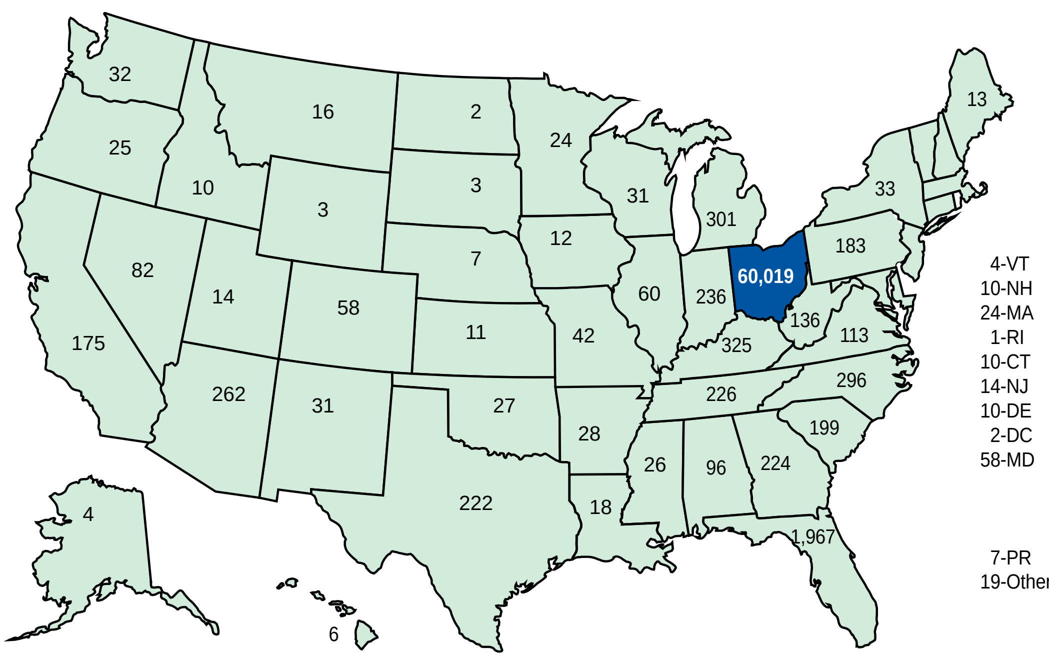
Demographics of Active and Retired Members

Fiscal Year 2009

	Active Members			Percentage of Distribution		
	Male	Female	Total	Male	Female	Total
Under 20	420	365	785	0.3%	0.3%	0.6%
20 to 29	5,193	5,688	10,881	4.2	4.5	8.7
30 to 39	5,587	12,044	17,631	4.5	9.6	14.1
40 to 49	9,188	29,003	38,191	7.3	23.1	30.4
50 to 54	5,643	17,262	22,905	4.5	13.8	18.3
55 to 59	4,687	13,081	17,768	3.7	10.4	14.1
60 to 64	3,290	7,485	10,775	2.6	6.0	8.6
65 to 69	1,607	2,683	4,290	1.3	2.1	3.4
70 and over	841	1,398	2,239	0.7	1.1	1.8
	36,456	89,009	125,465	29.1%	70.9%	100.0%

	Retired Members and Beneficiaries			Percentage of Distribution		
	Male	Female	Total	Male	Female	Total
Under 55	974	1,158	2,132	1.5%	1.8%	3.3%
55 to 59	1,073	1,652	2,725	1.7	2.5	4.2
60 to 64	1,851	5,508	7,359	2.8	8.4	11.2
65 to 69	2,773	8,481	11,254	4.2	12.9	17.1
70 to 74	3,103	9,085	12,188	4.7	13.8	18.5
75 to 79	2,776	8,098	10,874	4.2	12.3	16.5
80 to 84	2,223	7,136	9,359	3.4	10.8	14.2
85 to 89	1,397	5,194	6,591	2.1	7.9	10.0
90 to 94	493	2,113	2,606	0.8	3.2	4.0
95 to 99	82	528	610	0.1	0.8	0.9
100 and over	6	53	59	0.0	0.1	0.1
	16,751	49,006	65,757	25.5%	74.5%	100.0%

Retired Members and Beneficiaries by State



STATISTICAL SECTION

Retired Members by Type of Benefit

Amount of Monthly Benefit	Total	Service	Disability	Survivor
$ 1 - $ 250	19,630	17,103	714	1,813
251 - 500	14,197	11,972	992	1,233
501 - 750	9,960	8,360	976	624
751 - 1,000	6,700	5,622	808	270
1,001 - 1,500	7,748	6,545	1,000	203
1,501 - 2,000	3,633	3,098	455	80
over 2,000	3,650	3,221	365	64
	65,518	55,921	5,310	4,287
Average Monthly Benefit		$ 881	$1,134	$ 556
Average Age		74.6	64.2	70.8

Retirees, Spouses, and Dependents Receiving Health Insurance

Attained Age	Number of Males	Number of Females	Total Number
Under 30	156	163	319
30 - 39	12	12	24
40 - 49	146	186	332
50 - 59	1,101	1,507	2,608
60 - 64	1,110	2,932	4,042
65 - 69	2,357	5,567	7,924
70 - 74	3,409	6,701	10,110
75 - 79	3,028	5,946	8,974
80 - 84	2,346	5,867	8,213
85 - 89	1,561	4,655	6,216
90 - 99	663	2,379	3,042
100 and over	10	51	61
	15,899	35,966	51,865

Principal Participating Employers

Current fiscal year and nine fiscal years ago

	Fiscal Year 2009			Fiscal Year 2000		
Participating Schools Name	Covered Employee Members	Rank	Percentage of Total System	Covered Employee Members	Rank	Percentage of Total System
Columbus City Schools	3,898	1	3.11%	3,845	2	3.39%
Cleveland Metropolitan School District	3,260	2	2.60	4,378	1	3.85
Cincinnati Public Schools	2,855	3	2.28	2,869	3	2.52
University of Akron	2,191	4	1.75	1,257	7	1.10
Toledo Public Schools	1,720	5	1.37	2,041	4	1.79
Akron Public Schools	1,670	6	1.33	1,615	6	1.42
Dayton Public Schools	1,398	7	1.11	1,670	5	1.47
South-Western City Schools	1,233	8	0.98	1,029	8	0.90
Lakota Local Schools	1,162	9	0.93	–	–	–
Parma City Schools	1,001	10	0.80	932	10	0.82
Canton City Schools	–	–	–	949	9	0.83
All other	105,077		83.74	93,226		81.91
Total	125,465		100.00%	113,811		100.00%

In fiscal year 2009 "All other" consisted of:

	Covered Employee Members	Number of School Districts
Local School Districts	37,719	373
City School Districts	43,954	184
Educational Service Centers	7,740	58
Exempted Village Districts	5,459	49
Higher Education	3,538	14
Vocational/Technical Schools	3,115	49
Community Schools	3,269	265
Other	283	9

Average Benefit Payments

Last 10 fiscal years

Retirement Effective Dates	Years of Credited Service 5-9	10-14	15-19	20-24	25-29	30 +
Period 7/1/08 to 6/30/09						
Average Monthly Benefit	$ 204	$ 419	$ 681	$ 938	$ 1,250	$ 2,178
Average Final Average Salary	1,402	1,802	2,115	2,264	2,504	2,765
Number of Retirees	364	341	379	492	528	732
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

Custodian, Robert Johnson, Avalon Elementary

Plan Summary

Purpose

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

Administration

The general administration of SERS is supervised by a nine-member Board. 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 daily 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 Coverage

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 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 Coverage

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 or a lump sum refund of the member’s contributions.

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 state retirement law, 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 may be redeposited with interest 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 if approved by the member’s school district. 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 also 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.

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 if the employer has established an early retirement incentive plan.

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

Benefit Calculation

The benefit amount is calculated as follows:

> 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 or has 30 years of service credit.

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

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 state retirement 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 joint and survivor 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 five 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 two 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 members who joined SERS after July 29, 1992 are covered 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 Benefit

The designated beneficiary of any SERS retiree or disability benefit recipient will receive a $1,000 lump sum payment upon the person’s death. If there is no beneficiary, payment is made to the person responsible for the burial expenses or to the person’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, with three of those months served in the two-and-a-half 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 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 after retirement 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. Those who choose to quit working and receive payment prior to age 65 will receive a refund of their contributions only.

Thanks to Avalon Elementary, Columbus, Ohio and Park Street Intermediate, Grove City, Ohio for the opportunity to photograph SERS members in action.

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