Public Employees Retirement System of Ohio

THE COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Year Ended December 31, 1989

SECURING THE FUTURE

Public Employees Retirement System of Ohio

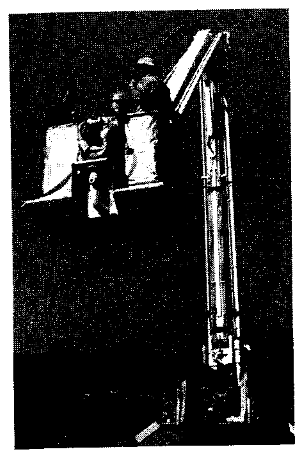
THE COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Year Ended December 31, 1989

PERS

William S. McLaughlin, Executive Director
Richard E. Schumacher, Deputy Director/Controller
277 East Town Street, Columbus, Ohio 43215

The mission of PERS is to provide appropriate retirement, disability retirement, health care and survivor death benefits to all public employees of Ohio who are not covered by another state or local retirement system.



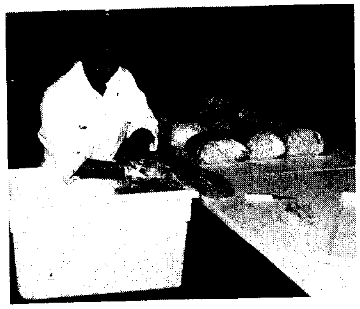


Table of Contents

Photos courtesy of the Ohio Department of Administrative Services, Peter O. Rompler, photographer.

The Retirement Board

ELECTED MEMBERS

John M. Hurley
Representing Municipal Employees

Walter H. Kyle
Representing State Employees

Richard J. Rehmer
Representing College and University Employees

W. Emerson "Dusty" Rhodes
Representing Miscellaneous Employees

William G. Wilcox
Representing Retirants

Wayne F. Wilke
Representing County Employees

STATUTORY MEMBERS

Anthony J. Celebrezze, Jr.
Attorney General

Thomas E. Ferguson
State Auditor

William J. Flaherty
Director of Administrative Services

EXECUTIVE DIRECTOR

William S. McLaughlin

DEPUTY DIRECTOR

Richard E. Schumacher
Controller

ASSISTANT DIRECTORS

Robert A. McLaughlin
Investments

Danny L. Drake
Benefits Administration

Edward T. Hale
Data Information Systems

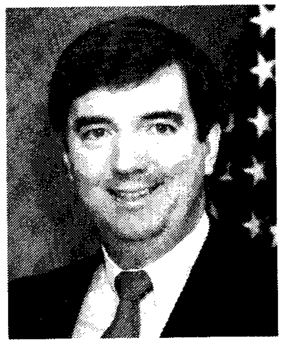
Toba J. Feldman
Legal & Legislative











The Retirement Board is the governing body of PERS, with responsibility for administration and management. Six of the nine members are elected by the groups they represent: retirants; employees of the state; employees of counties; employees of municipalities; non-teaching employees of state colleges and universities; and miscellaneous employees. The Auditor of State, Attorney General, and the Director of Administrative Services are statutory members.

The Retirement Board appoints the Executive Director, an actuary, and other employees necessary for the transaction of business. The Board meets monthly and receives no compensation, but is reimbursed for necessary expenses. By law, the State Treasurer is custodian of the funds of PERS.

Organizational Structure

ADVISERS:

Actuary
Gabriel, Roeder, Smith & Company
Detroit, Michigan

Investments
Comstock Partners Inc.
New York, New York

AUDITORS:

Deloitte & Touche
Columbus, Ohio
(Under contract with the
Auditor of the State of Ohio)

RETIREMENT BOARD

EXECUTIVE DIRECTOR
William S. McLaughlin

Deputy Director
Controller
Richard E. Schumacher

Assistant Director
Investments
Robert A. McLaughlin

Assistant Director
Benefits Administration
Danny L. Drake

Assistant Director
Data Information
Systems
Edward T. Hale

Assistant Director
Legal and Legislative
Toba J. Feldman

Letter of Transmittal

PUBLIC EMPLOYEES RETIREMENT SYSTEM OF OHIO
277 EAST TOWN STREET COLUMBUS, OHIO 43215
TELEPHONE (614) 466-2085

Dear Chairman and Members of the Board:

It is a privilege to submit to you the Comprehensive Annual Financial Report for the Public Employees Retirement System of Ohio for the fiscal year ended December 31, 1989. We believe this report reflects a careful stewardship of the System's assets and dedicated service to members and retirants.

The State Employees Retirement System was established January 1, 1935 to provide a secure means for employees of the State of Ohio to provide for their retirement. In 1938 the System expanded to include employees of counties, municipalities, health departments and park and conservancy districts. At that time the name was changed to the Public Employees Retirement System of Ohio. Membership was made optional for elected officials in 1941. Survivor benefits were made part of PERS's benefits in 1951. From 1935 to the present the System has experienced continuous growth and provided benefit enhancements.

Participating employers are divided, for actuarial purposes, into State, Local and Law Enforcement divisions. A complete description of employees eligible for membership in PERS is contained in the Plan Statement on page 49.

PERS provides retirement, disability and survivor benefit protection for thousands of public employees throughout the state. Employees, along with their employers, pay into the System during their working years. PERS, in turn, pays benefits to these members throughout their retirement, and to qualified beneficiaries upon a member's or retirant's death. For additional information on benefits available, see the Plan Statement on page 49.

The Comprehensive Annual Financial Report consists of six sections: (1) an Introductory Section which contains a Letter of Transmittal, along with the identification of the administrative organization and consulting services utilized by the System; (2) a Financial Section which contains a letter expressing the opinion of the independent certified public accountants and the financial statements of the System; (3) an Actuarial Section which contains a letter stating the independent actuary's opinion and results of their annual actuarial valuation; (4) a Statistical Section which includes significant data pertaining to the Retirement System; (5) an Investment Section which contains the investment report, portfolio summary, and the portfolio listings; and (6) the System's Plan Statement.

Economic Condition and Outlook

The economy appeared strong entering 1989. The Federal Reserve was concerned about the possibility of inflation. Accordingly, the Federal Reserve stepped in and began raising short-term interest rates. As the higher rates reduced inflationary pressures the Federal Reserve began to ease their grip. Inflation for the year was 4.8%, marginally above 1988's level of 4.4%. The GNP fell to 2.5% in 1989 from 3.9% in 1988. The unemployment rate began and ended the year at 5.3%. Americans saved at a rate of 5.3% in 1989, compared to 1988's rate of 4.2% and 1987's rate of 3.2%. An increase in the savings rate may denote declining confidence in the economy. 1990 enters with a slowing economy and inflation remains a concern for the future.

Major Initiatives

A major concern of PERS is the cost of providing health care to retirants and beneficiaries in a time of ever-escalating health care costs. More information regarding health care and other benefits may be found in the Plan Statement on page 49.

Changes Enacted: Amended House Bill 760 went into effect January 1, 1989. It increased the benefit formula for future retirants and provided certain benefit improvements for qualifying PERS recipients. An increase in the death benefit was also a provision of this legislation.

Investment Strategies: Our goal in 1990 will again be to attain a sound real rate of return on investments and strengthen our overall portfolio. Our fixed income portfolio will stress quality and call protection. The main function of our trading will be to align the portfolio to a desired mix. The real estate plan for 1990 involves putting greater emphasis on investments which can deliver stable cash flows. The equity portfolio will concentrate on companies with attractive long-term fundamentals and high dividend yields.

Financial Information: The management of PERS has implemented and continues to maintain systems of internal accounting controls which are designed to provide reasonable assurances for the safeguarding of assets and the reliability of financial records.

Accounting Systems and Reports

The accrual basis of accounting is used in recording financial transactions. Expenses are recorded when the liability is incurred, and revenues are recorded in the accounting period in which they are earned and become measurable. Interest earned is accrued on a monthly basis. Entries for amortization of premium and accumulation of discount are accrued on a monthly basis. Deferred gains and losses are also accrued monthly. Gains and losses on bond exchanges are accounted for under the deferral and amortization method. Accounts receivable at year end, in addition to accrued interest receivable, reflect accrued employer charges and investment proceeds due on sales that have not yet settled. Investments are recorded at cost; thus, on the balance sheets, bonds and mortgages are carried at amortized book value while stocks are carried at cost.

Fixed assets are listed at cost less accumulated depreciation. Under our cash management program, receipts are deposited as received and are recorded as undistributed deposits until such time as they are allocated to member contributions, employer receivables, and investment income.

Revenues

The reserves needed to finance retirement benefits are accumulated through the collection of employer and employee contributions and through investment income. The 1989 revenue from employee and employer contributions totaled $1,281.2 million. Contribution rates for both employees and employers have remained unchanged for the past 13 years. Net investment income for the period was $1,823.8 million. Investment income increased more than 26% when compared to 1988, and more than 37% when compared to 1987.

Expenses

Benefit payments are the primary disbursements of a Retirement System. Recurring benefit payments, refunds of contributions to terminated employees, and the cost of administering the System comprise total expenses. Administrative expenses are funded wholly through investment income.

Benefit disbursements for 1989 totaled $1,000.1 million. Of this amount $914.8 million was paid to fulfill the System's obligation to its retirants. Refunds to members or beneficiaries for reasons of separation from service or death totaled $85.3 million.

Health care costs more than doubled during the short period covering 1984 through 1988. In 1989 health care costs amounted to $203.6 million, representing over 20% of the Retirement System's total costs for the year. It is only because of exceptional investment earnings that PERS has been able to successfully absorb these cost increases. Health care costs are paid by the Public Employees Retirement System on a self-insured split-funding program initiated in January 1981. Claims processing is administered under this agreement by the Aetna Insurance Company.

Funding and Reserves

Funds, derived from the excess of revenues over expenses, are accumulated by the Retirement System in order to meet current and future benefit obligations to retirants and beneficiaries. The higher the level of funding, the larger the accumulations of assets and the greater the investment income potential. Continuous improvement in the funding of the System is sought through suitable reserves, higher investment earnings, and effective cost containment programs. As of December 31, 1989, funds established by the System totaled $18,664.1 million. The actuarial valuation dated December 31, 1988 reflects an unfunded accrued liability of $5,863.6 million. This is the difference between the System's net assets and the actuarially calculated liability for the fund. These "unfunded accrued liabilities" are being amortized over future years. The State government liability is being funded over 37 years, the local government portion over 39 years, and the law enforcement portion over 19 years. The industry standard for a sound funding policy is a funding period of 40 years or less. By pursuing a conscientious management approach, PERS has been able to meet the goals of level funding, thereby holding constant member and employer contribution rates.

The Pension Benefit Obligation is a standardized disclosure measure of the present value of pension benefits. The measure is the actuarial present value of credited projected benefits, excluding health care benefits, and is intended to help users assess a public employees retirement system's funding status. The total Pension Benefit Obligation as of December 31, 1988 was $15,658 million. The net assets available for benefits, excluding health care costs, were $13,290 million.

Investments

The investment portfolio provided net revenues of $1,823.8 million in 1989. Net revenues are comprised of bond interest, accumulation of discount, amortization of premium, dividend income, recognized gains and losses on the sale of securities, and amortization of deferred gains and losses on bonds sold. Total weighted average purchase yield on all investments was 8.05%. A detailed listing of the portfolio is presented on pages 38 to 47.

Professional Services

Professional services are provided to the Public Employees Retirement System by consultants appointed by the Board to aid in efficient and effective management of the System. Actuarial services are provided by Gabriel, Roeder, Smith & Company, Detroit, Michigan. The investment adviser is Comstock Partners Inc., New York, New York. The financial records of the System were audited by Deloitte & Touche, Certified Public Accountants, Columbus, Ohio, under contract with the Auditor of the State of Ohio.

Certificate of Achievement for Excellence in Financial Reporting

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Public Employees Retirement System of Ohio for its Comprehensive Annual Financial Report for the fiscal year ended December 31, 1988. In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report, whose contents conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to Certificate of Achievement program requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgements

The preparation of this report reflects the combined efforts of the System's staff under the direction of the Retirement Board. Its purpose is to provide complete and reliable information as a basis for making management decisions, as a means for determining compliance with the legal provisions, and as a means for determining responsible stewardship over the assets contributed by the members and their employers.

This report is being mailed to all employer units of the System, each state legislator, and other interested parties.

Respectfully submitted,

William S. McLaughlin
Executive Director

Richard E. Schumacher, CPA
Deputy Director/Controller
June 1, 1990, Columbus Ohio

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Public Employees Retirement System of Ohio

For its Comprehensive Annual Financial Report for the Fiscal Year Ended December 31, 1988

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 (CAFR's) achieve the highest standards in government accounting and financial reporting.

President

Executive Director

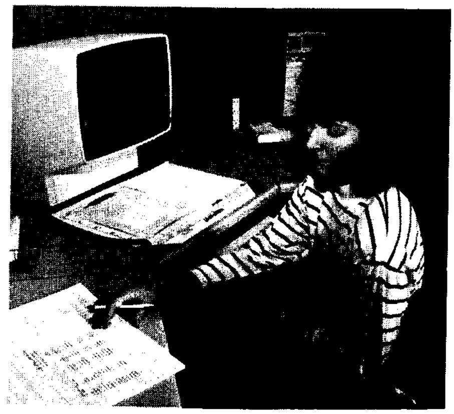
Public Employees Retirement System of Ohio

The Comprehensive Annual Financial Report

For the Year Ended December 31, 1989

FINANCIAL SECTION

PERS



By providing reports that satisfy generally accepted accounting principles and applicable legal requirements, are easily readable

and efficiently organized, PERS regularly has received the G.F.O.A. Certificate of Achievement for Excellence in Financial Reporting.

Independent Auditors' Report

Deloitte & Touche

155 East Broad Street
Columbus, Ohio 43215-3650
Telephone: (614) 221-1000
Facsimile: (614) 229-4647

INDEPENDENT AUDITORS' REPORT

To the Retirement Board of the
Public Employees Retirement System of Ohio:

We have audited the accompanying balance sheets of the Public Employees Retirement System of Ohio as of December 31, 1989 and 1988, and the related statements of revenues, expenses, and changes in fund balances and of changes in financial position for the years then ended. Our audits also comprehended the Additional Information of the System, listed in the accompanying table of contents. These financial statements and the Additional Information are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such financial statements present fairly, in all material respects, the financial position of the System at December 31, 1989 and 1988, and the results of its operations and the changes in its financial position for the years then ended in conformity with generally accepted accounting principles. Also, in our opinion, such Additional Information, when considered in relation to the basic financial statements, presents fairly in all material respects the information shown therein.

Deloitte & Touche

May 4, 1990

Balance Sheets
As Of December 31, 1989 and 1988

	1989	1988
ASSETS		
Cash and Short-Term Securities (Note 3):		
Cash	$ (4,835,208)	$ 5,073,263
Short-Term Securities	3,897,391,669	2,319,957,960
	3,892,556,461	2,325,031,223
Receivables:		
Employers	108,773,940	89,965,653
Retirement Incentive Plan	72,966,871	65,713,895
Investment Sale Proceeds		15,633,524
Accrued Interest and Dividends	161,052,930	142,053,482
	342,793,741	313,366,554
Investments (Notes 3 and 4):		
Bonds	6,952,218,434	5,605,292,950
Mortgages	3,912,786,505	4,823,072,121
Stocks	2,859,115,836	2,956,399,245
Real Estate	730,142,364	433,926,567
Venture Capital	16,407,521	34,273,561
	14,470,670,660	13,852,964,444
Fixed Assets:		
Land	1,708,409	1,708,409
Building and Building Improvements	12,497,506	6,676,575
Furniture, Fixtures, and Equipment	5,966,154	5,352,506
	20,172,069	13,737,490
Accumulated Depreciation	(4,693,305)	(4,259,018)
	15,478,764	9,478,472
Other Assets:		
Deferred Losses on Bonds Sold (Note 4)	72,339,136	126,070,138
Prepaid Expenses	1,101,396	866,100
	73,440,532	126,936,238
TOTAL ASSETS	$18,794,940,158	$16,627,776,931
LIABILITIES AND FUND BALANCES		
Liabilities:		
Undistributed Deposits	$ 11,381,270	$ 9,401,382
Medical Benefits Payable	38,572,222	39,075,219
Investment Commitments Payable	1,822,843	7,542,531
Accrued Administrative Expenses (Notes 8 and 9)	3,273,901	3,023,224
Deferred Gains on Bonds Sold (Note 4)	75,781,808	
Total Liabilities	130,832,044	59,042,356
Fund Balances:		
Employees' Savings Fund	3,076,305,964	2,843,386,629
Employers' Accumulation Fund	8,131,786,049	7,314,749,961
[Unfunded Actuarial Accrued Liability: 1988—$5,863,638,343; (Note 5)]		
Annuity and Pension Reserve Fund	6,919,929,708	5,929,349,287
Survivors' Benefit Fund	522,659,425	469,068,312
Income Fund	13,281,353	12,267,757
Expense Fund	145,615	(87,371)
Total Fund Balances	18,664,108,114	16,568,734,575
TOTAL LIABILITIES AND FUND BALANCES	$18,794,940,158	$16,627,776,931

See Notes to Financial Statements

Statements of Changes in Financial Position

For The Years Ended December 31, 1989 and 1988

	1989	1988
Funds Provided By:		
Excess of Revenues Over Expenses	$ 2,095,373,539	$ 1,732,773,343
Items Not Requiring Funds:		
Depreciation	705,701	762,740
Loss on Disposal of Fixed Assets	10,371	184
Increase (Decrease) in Funds Due to Changes in:		
Employers' Receivables	(18,808,287)	(1,814,145)
Retirement Incentive Plan Receivable	(7,252,976)	(19,096,327)
Investment Sale Proceeds Receivable	15,633,524	19,104,795
Accrued Interest and Dividends Receivable	(18,999,448)	17,267,829
Deferred Losses on Bonds Sold	53,731,002	104,930,055
Prepaid Expenses	(235,296)	(198,455)
Undistributed Deposits	1,979,888	3,016,786
Medical Benefits Payable	(502,997)	26,691,087
Investment Commitments Payable	(5,719,688)	(5,428,763)
Accrued Administrative Expenses	250,677	454,766
Deferred Gains on Bonds Sold	75,781,808	
Sales and Maturities of Investments—Net Book Value:		
Bonds	19,891,282,961	14,602,852,268
Mortgages	2,051,290,352	1,753,869,597
Stocks	916,602,045	1,824,195,653
Real Estate	39,691,264	54,050,172
Venture Capital	21,431,328	4,201,465
Proceeds from Sale of Fixed Assets	31,188	587
Total Funds Provided	25,112,276,956	20,117,633,637
Funds Used For:		
Purchase of Investments:		
Bonds	21,238,208,445	15,341,887,524
Mortgages	1,141,004,736	1,442,134,568
Stocks	819,318,636	1,026,634,074
Real Estate	335,907,061	185,558,591
Venture Capital	3,565,288	5,653,238
Additions to Fixed Assets	6,747,552	1,708,559
Total Funds Used	23,544,751,718	18,003,576,554
Net Increase In Funds	1,567,525,238	2,114,057,083
Cash and Short-Term Securities, Beginning of Year	2,325,031,223	210,974,140
Cash and Short-Term Securities, End of Year	$ 3,892,556,461	$ 2,325,031,223

See Notes to Financial Statements

Statements of Revenues, Expenses, and Changes in Fund Balances

For The Years Ended December 31, 1989 and 1988

	Employees' Savings	Employers' Accumulation	Annuity And Pension Reserve
Revenues:			
Members' Contributions	$ 476,412,207		
Employers' Contributions		$ 804,745,875	
Investment Income			
Other			$ 32,012
Total Revenues	476,412,207	804,745,875	32,012
Expenses:			
Benefit Payments			851,360,846
Refunds	85,275,548	7	
Administrative Expenses			
Total Expenses	85,275,548	7	851,360,846
Excess (Deficit) of Revenues Over Expenses	391,136,659	804,745,868	(851,328,834)
Transfers—Increase (Decrease):			
Retirement Benefits	(202,185,749)	(582,810,193)	784,995,942
Disability Benefits	(18,122,985)	(116,114,312)	134,237,297
Survivor Benefits	(7,415,761)	(32,050,224)	
Retirement To (From) Other Systems	(2,842,124)	(1,463,159)	4,305,283
Statutory Interest	72,333,668	(72,333,668)	
Annual Interest		557,493,238	473,228,114
Other	15,627	259,568,538	445,142,619
Total Transfers	(158,217,324)	12,290,220	1,841,909,255
Balance, Beginning of Year	2,843,386,629	7,314,749,961	5,929,349,287
Balance, End of Year	$3,076,305,964	$8,131,786,049	$6,919,929,708

See Notes to Financial Statements

1989 Survivors' Benefit	Income	Expense	Total	1988 Total
		$ 3,448	$ 476,415,655	$ 446,091,129
			804,745,875	769,144,695
	$ 1,823,780,073		1,823,780,073	1,441,226,325
$ 5,708	2,498,248		2,535,968	10,160,620
5,708	1,826,278,321	3,448	3,107,477,571	2,666,622,769
63,426,492			914,787,338	841,373,200
	698	98	85,276,351	81,220,133
		12,040,343	12,040,343	11,256,093
63,426,492	698	12,040,441	1,012,104,032	933,849,426
(63,420,784)	1,826,277,623	(12,036,993)	2,095,373,539	1,732,773,343
39,465,985				
35,969,329	(1,066,690,681)			
41,576,583	(758,573,346)	12,269,979		
117,011,897	(1,825,264,027)	12,269,979		
469,068,312	12,267,757	(87,371)	16,568,734,575	14,835,961,232
$522,659,425	$ 13,281,353	$ 145,615	$18,664,108,114	$16,568,734,575

Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following are the significant accounting policies followed by the Public Employees Retirement System of Ohio (PERS):

Basis of Accounting—The financial statements are prepared using the accrual basis of accounting under which expenses are recorded when the liability is incurred and revenues are recorded in the accounting period in which they are earned and become measurable.

Investments—Section 145.11 of the Ohio Revised Code authorizes PERS to invest in various instruments (meeting various rating criteria) which include obligations of the U.S. Treasury and U.S. agencies, state and local governments, various mortgage loans, corporate bonds, common and preferred stock, commercial paper, and real estate. PERS did not engage in any repurchase or reverse repurchase transactions during either 1989 or 1988.

Short-term securities consisting of commercial paper and U.S. Treasury obligations are carried at cost. Equity securities and investments in real estate are carried at cost. Fixed income investments are carried at amortized cost, using the effective interest rate method of amortization. All investments are subject to adjustment for market declines judged to be other than temporary.

The gain or loss on investment transactions is determined using the average cost of securities sold for equity securities and the specific cost of securities sold for all other investments. Dividend income is recognized based on the ex-dividend date. Interest income is recognized as earned.

Deferred Gains and Losses on Bonds Sold—Gains and losses on bond exchanges are accounted for under the deferral and amortization method of accounting whereby gains and losses on bonds exchanged are deferred and amortized over the shorter of the life of the bond sold or purchased. Prior to 1989, only losses on bond exchanges were deferred, while gains on bond exchanges were recognized as realized (see Note 4). Gains and losses are deferred on bond exchanges only if the exchange involves the sale and simultaneous purchase of another bond of equal or better rating and/or an improvement in net yield to maturity or the quality of the bond held. Gains and losses are deferred only on the first exchange of a security. On the subsequent sale of any bond purchased as part of a bond exchange on which a gain or loss was deferred, any unaccumulated gain or unamortized loss is immediately recognized.

Fixed Assets—Fixed assets are recorded at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets. The range of estimated useful lives is as follows:

	Years
Buildings and building improvements	50
Furniture, fixtures, and equipment	3 - 10

Undistributed Deposits—Cash receipts are recorded as undistributed deposits until such time as they are allocated to employers' receivables, members' contributions, or investment income.

Funds—Various funds are established to account for the reserves held for future and current benefit payments as follows:

- The Employees' Savings Fund represents members' contributions held in trust pending their refund or transfer to a benefit disbursement fund. Upon an employee's retirement, such employee account is credited with an amount of interest (statutory interest) on the employee's contributions based on a rate of 3 percent to 4 percent compounded annually as required by Chapter 145 of the Ohio Revised Code. Such statutory interest does not vest with the employee.
- The Employers' Accumulation Fund is used to accumulate employers' contributions to be used in providing the reserves required for transfer to the Annuity and Pension Reserve Fund as members retire or become eligible for disability benefits and to the Survivors' Benefit Fund for benefits due dependents of deceased members.
- The Annuity and Pension Reserve Fund is the fund from which annuity and disability pensions are paid. This reserve was fully funded according to the latest actuarial study dated December 31, 1988, and accordingly, there are sufficient assets available to this fund to pay the vested benefits of all retirants and beneficiaries as of that valuation date.
- The Survivors' Benefit Fund is the fund from which benefits due dependents of deceased members of the retirement system are paid. This fund is also fully funded as of December 31, 1988.
- The Income Fund is the fund which is credited with all investment earnings and miscellaneous income. The balance in this fund is transferred to other funds to aid in the funding of future benefit payments and administrative expenses.
- The Expense Fund provides for the payment of administrative expenses with the necessary monies allocated to it from the Income Fund.

2. DESCRIPTION OF PERS

Organization—PERS is a cost-sharing multiple-employer public employee retirement system for all public employees in Ohio except those covered by one of the other state or local retirement systems in Ohio. PERS is administered in accordance with Chapter 145 of the Ohio Revised Code.

PERS is not part of the State of Ohio financial reporting entity. Responsibility for the organization is vested in the System's Retirement Board; there is no financial interdependency with the State of Ohio, nor does the State of Ohio provide oversight authority for the System. The Retirement Board is the governing body of PERS, with responsibility for administration and management. Six of the nine members are elected by the groups they represent: retirants; employees of the state; employees of counties; employees of municipalities; non-teaching employees of state colleges and universities; and miscellaneous employees. The Auditor of State, Attorney General, and the Director of Administrative Services are statutory members.

The Retirement Board appoints the Executive Director, an actuary, and other employees necessary for the transaction of business. The Board meets monthly and receives no compensation, but is reimbursed for necessary expenses.

Employer, employee and retirant data as of December 31, 1988 and 1987 (per latest available actuarial data) follows:

	1988	1987
Employer Units:		
State group	**240**	240
Local government group	**3,039**	3,042
Law enforcement group	**186**	177
Employee Members and Retirants:		
Retirants and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	**120,240**	115,809
Active employees:		
Vested	**152,297**	151,800
Nonvested	**112,571**	107,181

All public employees in Ohio, except for certain specific exclusions and exemptions, are required to become contributing members of PERS. Vested employees represent those employees who have earned sufficient years of service credit (5 years) to be entitled to a future benefit from PERS.

Benefits

- Age and Service Benefits—Benefits are calculated on the basis of age, final average salary, and service credit. Members are eligible for retirement benefits at age 60 with 5 or more years of service credit, age 55 with 25 or more years of service credit, or at any age with 30 or more years of service credit. The annual benefit is based on 2.1 percent of final average salary multiplied by the actual years of service for the first 30 years of service credit and 2.5 percent for years of service in excess of 30 years. Persons retiring before age 65 with less than 30 years of service credit receive a percentage reduction in benefit amounts. Retirement benefits vest after 5 years of credited service.
- Law Enforcement Officers' Benefits—Options are available to those members in the law enforcement division at age 52 or older with 25 or more years of credited service. The annual benefit is calculated by multiplying 2.5 percent of final average salary by the actual years of service for the first 20 years of service credit and 2.1 percent of final average salary for each year of service over 20 years. This option also permits early retirement under qualifying circumstances as early as age 48.
- Early Retirement Incentive—Employers under PERS may establish an early retirement incentive plan utilizing the purchase of service credit. To be eligible, employees must be able to retire under existing plan provisions after the purchase of the additional credit. Electing employers must contribute all such additional costs as are actuarially determined to fund the benefits. Such plan, if adopted by an employer, must be offered to a minimum of 5 percent of covered employees and provide for the purchase of up to five years credit, limited to a maximum of 20 percent of total service credit.
- Disability Benefits—A member who becomes permanently disabled before age 60 and has completed 60 months of contributing service is eligible for a disability benefit. Law enforcement officers are immediately eligible for disability benefits if disabled by an on-duty illness or injury.
- Survivor Benefits—Dependents of deceased members may qualify for survivor benefits if the deceased employee had at least 18 months of service credit with at least three months of credit within the two and one-half years immediately preceding death. Chapter 145 of the Ohio Revised Code specifies the dependents and the conditions under which they qualify for survivor benefits.
- Health Care Benefits—The System provides comprehensive health care benefits to retirants with ten or more years of service credit and offers coverage to their dependents on a co-pay basis. Coverage includes hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare premiums. The System determines the amount, if any, of the associated health care costs that will be absorbed by the System. The System has adopted cost containment measures that require annual deductible payments on claims by retirants, their covered spouses, and other dependents.
- Other Benefits—Annually, after retirement, retirement benefits are increased 3 percent if the cost of living, as measured by the Consumer Price Index, has increased by at least 3 percent on a cumulative basis. A death benefit of $500 - $2,500, determined by number of years of service credit of the retirant, is paid to the beneficiary of a deceased retirant.
- Refunds—Upon termination of employment, a member may withdraw accumulated contributions made to PERS. The law requires a three month waiting period after service termination before the refund may be paid. The acceptance of a refund cancels the individual's rights and benefits in PERS. Employer contributions to PERS are not refundable.

Contributions—PERS' funding policy provides for periodic employer contributions at actuarially determined rates, expressed as a percentage of annual covered payroll, such that they, along with employee contributions, are adequate to accumulate adequate assets to pay benefits when due. Level percentage of payroll employer contribution rates are determined using the entry age normal actuarial funding method. This formula determines the amount of contributions necessary to fund: (1) the current service cost, which represents the estimated amount necessary to pay for benefits earned by the employees during the current service year; and (2) the prior service cost for service earned prior to plan inception and subsequent benefit increases, which represents the amount necessary to pay for unfunded accrued liabilities over a period of 37 years for state, 39 years for local government, and 19 years for law enforcement divisions. Currently the rates based on gross payroll are:

	Employee Rate	Employer Rate
State group	8.5%	13.71%
Local government group	8.5%	13.95%
Law enforcement group	9.5%	18.10%

These rates fall within the range set by the Ohio Revised Code.

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

3. CASH AND INVESTMENTS

Of PERS' cash deposits at December 31, 1988, $100,000 was insured by Federal Deposit Insurance Corporation. The remaining cash deposits are uninsured and uncollateralized and are held in the name of PERS' pledging financial institution, as required by the Ohio Revised Code. Uninsured and uncollateralized deposits were generally higher during 1989 than at December 31, 1989 due to higher deposit amounts maintained during the year.

A summary of short-term securities and investments held at December 31, 1989 and 1988 is as follows:

	Book Value	Market Value
	December 31,1989	
Short-term Securities	$ 3,897,391,669	$ 3,897,391,669
Investments:		
Bonds—par value	$12,359,526,400	
Net unamortized discount	5,407,307,966	
Bonds—net	6,952,218,434	$ 7,201,896,674
Mortgages—par value	4,690,424,355	
Net unamortized discount	777,637,850	
Mortgages—net	3,912,786,505	4,028,940,322
Stocks	2,859,115,836	4,105,282,344
Real estate	730,142,364	785,548,004
Venture capital	16,407,521	17,407,521
Total Investments	$14,470,670,660	$16,139,074,865
	December 31, 1988	
Short-term Securities	$ 2,319,957,960	$ 2,319,957,960
Investments:		
Bonds—par value	$11,889,973,028	
Net unamortized discount	6,284,680,078	
Bonds—net	5,605,292,950	$ 5,595,808,700
Mortgages—par value	5,535,486,897	
Net unamortized discount	712,414,776	
Mortgages—net	4,823,072,121	4,831,674,161
Stocks	2,956,399,245	3,451,279,496
Real estate	433,926,567	496,188,654
Venture capital	34,273,561	24,038,372
Total Investments	$13,852,964,444	$14,398,989,383

Market Value—If available, quoted market prices have been used to value investments as of December 31, 1989 and 1988. Securities not having a quoted market price have been valued based on yields currently available on comparable securities of issuers with similar credit ratings. Venture capital not having quoted market prices are valued at cost. The market value of real estate commingled funds is based upon appraisals of the properties held.

Weighted average purchase yields are as follows:

	1989	1988
Short-term securities	**7.67%**	7.69%
Long-term investments	**8.11%**	8.51%
Total yield	**8.04%**	8.42%
Total yield adjusted for amortization of deferred gains and losses on bonds sold*	**8.05%**	8.37%

* PERS did not begin deferring gains until 1989 (see Note 4).

Statement No. 3 of the Government Accounting Standards Board requires governmental entities to categorize investments to give an indication of the level of risk assumed by the entity at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by PERS or by its agent in the name of PERS. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the name of PERS. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent but not in PERS' name.

All investments of PERS meet the criteria of Category 1 except the real estate commingled funds, which by their nature are not required to be so categorized. Investments are held in the name of PERS or its nominee by the Treasurer of the State of Ohio as custodian.

4. DEFERRED GAINS AND LOSSES ON BONDS SOLD

PERS defers gains and losses on the sale of bonds under a program to reinvest the proceeds in similar bonds (prior to 1989, gains on bond exchanges were not deferred but, rather, were recognized as realized). These exchanges are made to increase annual income, to shorten or lengthen maturity as market conditions change, or to improve the quality of the bond portfolio. The following presents the activity in these accounts for the years ended December 31, 1989 and 1988.

	1989	1988
Deferred Gains:		
Beginning Balance	$ -0-	
Gains Deferred on Bonds Exchanged	271,780,378	
Gaines Accumulated	(11,137,592)	
Gains Recognized on Sales Prior to Maturity	(184,860,978)	
Ending Balance	$ 75,781,808	
Deferred losses:		
Beginning Balance	$ 126,070,138	$ 231,000,193
Losses Deferred on Bonds Exchanged	78,490,762	151,017,105
Losses Amortized	(8,282,757)	(12,289,206)
Losses Recognized on Sales Prior to Maturity	(123,939,007)	(243,657,954)
Ending Balance	$ 72,339,136	$ 126,070,138

5. ACTUARIAL ASSUMPTIONS AND METHODS

Significant actuarial assumptions employed by the actuary for funding purposes as of December 31, 1988, the date of the latest actuarial study, and 1987 include:

- Investment Return—1988—7.75 percent compounded annually, for active and inactive members; and 7.5 percent, compounded annually, for retirants and beneficiaries; 1987—7.5 percent, compounded annually, for all members and beneficiaries.
- Salary Scale—The active member payroll is assumed to increase 5.5 percent annually, which is the portion of the individual pay increase assumption attributable to inflation. Also assumed are additional projected salary increases ranging from 0 percent to 4 percent per year, depending on age, attributable to seniority/merit. Benefit payments are assumed to increase 3 percent per year after retirement.
- Multiple Decrement Tables
  - Death— For determination of active and inactive members' mortality, the 1960 Basic Group Mortality Table was used. For retirants mortality, the 1971 Group Annuity Mortality Male and Female Tables, projected to 1984 were used.
  - Disability— Based upon PERS' experience.
  - Withdrawal—Based upon PERS' experience.
- Health Care Benefits—Assumed liabilities are based on PERS' experience adjusted for 5.5 percent increase in costs annually. All benefit recipients were assumed to be eligible for Medicare on attainment of age 65, or immediately if retired for disability.

For actuarial purposes, assets are valued based on book value plus or minus 1) cumulative realized investment gains and losses and 2) a cumulative market value adjustment based on 20 percent of unrealized market appreciation on investment assets.

PERS' actuarial valuation is calculated separately for retirants and beneficiaries and for active and inactive members.

The actuarial present value of benefits to be paid retirants and beneficiaries currently receiving benefits and deferred survivor beneficiaries, whose benefits have been determined, is calculated using the assumptions noted above. The reserves in the Annuity and Pension Reserve Fund and the Survivors' Benefit Fund together with interest credited thereon from the Income Fund are compared to the actuarial accrued liability for the remaining lifetimes of the retirants and beneficiaries, and any deficiency is then funded by a transfer from the Employers' Accumulation Fund. Consequently, all such determined benefits are fully funded.

The actuarial accrued liability for active and inactive members is calculated on the projected benefit basis using the entry age normal actuarial cost method under which the present value of each member's expected benefit payable at retirement or death is determined. The assets of the Employees' Savings Fund, Employers' Accumulation Fund, and the market value adjustment are subtracted from this present value to arrive at the unfunded actuarial accrued liability.

The unfunded actuarial accrued liability (including projections for health care costs) based upon the two most recent annual actuarial valuations is as follows:

	December 31, 1988				December 31, 1987
	State Group	Local Government Group	Law Enforcement Group	Total	Total
Present value of actuarial accrued liability for active and inactive accounts	$6,206,590,807	$8,964,054,299	$323,139,397	$15,493,784,503	$14,170,699,173
Less:					
Employers' Accumulation Fund*	2,708,375,308	3,895,439,299	224,216,155	6,828,030,762	6,098,009,282
Employees' Savings Fund	1,122,132,531	1,654,765,330	66,488,768	2,843,386,629	2,615,236,360
Market Value Adjustment	(16,185,182)	(24,198,380)	(887,669)	(41,271,231)	74,633,423
Unfunded actuarial accrued liability	$2,392,268,150	$3,438,048,050	$ 33,322,143	$ 5,863,638,343	$ 5,382,820,108

*Amounts shown reflect transfers out of the Employers' Accumulation Fund to fully fund the Annuity and Pension Reserve Fund and Survivors' Benefit Fund.

6. DISCLOSURES REQUIRED BY GOVERNMENT ACCOUNTING STANDARDS BOARD (GASB) STATEMENT NO. 5

GASB Statement No. 5 established standard disclosure of pension information by public employee retirement systems. The Statement pertains to pension obligations only, and does not address health care benefits.

The amounts shown below as "pension benefit obligation" are a standardized disclosure measure of the present value of pension benefits, adjusted for the effect of projected salary increases, estimated to be payable in the future as a result of employee service to date. The measure is the actuarial present value of credited projected benefits, excluding health care benefits, and is intended to help users assess a public employees retirement system's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among such systems. The measure is independent of the actuarial funding method used to determine contributions to PERS discussed below.

The pension benefit obligations were determined as part of actuarial valuations at December 31, 1988 and 1987. The significant actuarial assumptions used to compute the pension benefit obligations are the same as those used for funding purposes and to compute contribution requirements, except that an investment rate of return of 7.75 percent was used for all obligations at December 31, 1988. At December 31, 1988 and 1987, the unfunded pension benefit obligation was $2,368 million and $2,569 million determined as follows (in millions):

	1988	1987
Pension benefit obligation:		
Retirants and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	$ 7,163	$ 6,167
Current employees:		
Accumulated employee contributions including allocated investment income	2,764	2,551
Employer-financed vested	5,523	5,550
Employer-financed nonvested	208	201
Total pension benefit obligation	15,658	14,469
Net assets available for benefits (excluding amounts allocated to health care costs), at cost (market value: 1988—$13,728; 1987—$12,302)	13,290	11,900
Unfunded pension benefit obligation	$ 2,368	$ 2,569

The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rates are 8.5 percent for employees other than law enforcement. Law enforcement employees contribute 9.5 percent of covered salary. The total 1989 employer contribution rate for state employers is 13.71 percent of covered payroll; 9.91 percent is the portion that is used to fund pension obligations. For local government employer units the rate is 13.95 percent of which 9.40 percent is used to fund pension obligations. The law enforcement employer rate is 18.10 percent and 13.08 percent is used to fund pension obligations. The difference between the total employer rate and the portion used to fund pension obligations is the amount used to fund the health care program for retirants.

Contributions for 1989 totaling $1,037,495,250 (employers—$573,050,890; employees—$464,444,360) were made in accordance with the actuarially determined contribution requirements determined through an actuarial valuation performed at December 31, 1987. All other actuarially determined contributions to the System were used for the purpose of funding health care.

The contributions used to fund the pension obligations represented 9.7 percent and 8.5 percent of active member payroll for employers and employees, respectively. Employers' contributions consisted of: a) $321,574,054 normal cost, b) $193,068,592 amortization of unfunded actuarial accrued liability, and c) $58,408,244 to fund survivor benefits.

Historical trend information is unavailable for years prior to 1986. The information for 1986 through 1988 is presented below (dollar amounts in millions):

Fiscal Year	(1) Net Assets Available For Benefits	(2) Pension Benefit Obligation (PBO)	(3) Percent Funded (1) ÷ (2)	(4) Unfunded PBO (2) − (1)	(5) Annual Covered Payroll	(6) Unfunded PBO as a Percentage of Covered Payroll (4) ÷ (5)
1986	$10,841	$13,284	81.6%	$2,443	$4,543	53.8%
1987	11,900	14,469	82.2	2,569	4,864	52.8
1988	13,290	15,658	84.9	2,368	5,307	44.6

Analysis of the dollar amounts of net assets available for benefits, pension benefit obligation, and unfunded pension benefit obligation in isolation can be misleading. Expressing the net assets available for benefits as a percentage of the pension benefit obligation provides one indication of the plan's funded status on a going concern basis. Analysis of this percentage over time indicates whether the System is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the plan. The unfunded pension benefit obligation and annual covered payroll are both affected by inflation. Expressing the unfunded pension benefit obligation as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of the progress being made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger the plan.

7. LEASES

PERS leases equipment with lease terms of one year or less. Total rent expense was $259,306 and $268,782 for the years ended December 31, 1989 and 1988, respectively.

8. VACATION AND SICK LEAVE

As of December 31, 1989 and 1988, $1,932,732 and $1,948,000, respectively, was accrued for unused vacation and sick leave for PERS' employees. Employees who resign or retire are entitled to full compensation for all earned unused vacation. Unused sick leave pay is lost upon termination. However, employees who retire are entitled to receive payment for a percentage of unused sick leave.

9. DEFERRED COMPENSATION PLAN

PERS offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all PERS employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are (until paid or made available to the employee or other beneficiary) solely the property and rights of PERS (without being restricted to the provisions of benefits under the plan), subject only to the claims of PERS' general creditors. Participants' rights under the plan are equal to those of general creditors of PERS in an amount equal to the fair market value of the deferred account for each participant.

PERS has no liability for losses under the plan and believes that it is unlikely that it will use the assets to satisfy the claims of general creditors in the future.

The deferred compensation assets of $937,197 and $691,871, at market value, and the related liability to PERS employees are included in the accompanying financial statements as of December 31, 1989 and 1988, respectively.

10. DEFINED BENEFIT PENSION PLAN

All employees of the System are eligible for membership in PERS. The payroll for such employees for the year ended December 31, 1989 was $5,991,624. Covered payroll paid to System employees participating in PERS was $5,746,012 for the year ended December 31, 1989. The System's contributions and its employees' contributions for the year ended December 31, 1989 were $801,569 and $488,411, respectively. These contributions represented 13.95 percent and 8.5 percent of covered payroll, respectively.

Information relating to eligibility, benefits and the System's asset valuations, unfunded actuarial accrued liability, and pension benefit obligation can be found elsewhere in the Notes to the Financial Statements.

11. PROFESSIONAL TRENDS

The Financial Accounting Standards Board (FASB) and the Governmental Accounting Standards Board (GASB), previously the National Council on Governmental Accounting (NCGA), have both issued financial reporting standards for state and local government pension plans. The conflicting opinions and views of these various standard setting bodies within the accounting profession, have created a dilemma for PERS as to which standards to follow.

In March 1980, the Financial Accounting Standards Board issued Statement No. 35 (FASB No. 35) titled "Accounting and Reporting by Defined Benefit Pension Plans." The principal impact of this Statement on financial statements is to require that all of the investments be stated at fair market value, and the elimination of deferred gains and losses on bond investment exchanges.

In a release dated August 1, 1980, the National Council on Governmental Accounting (NCGA) expressed its concern "that acceptance of FASB No. 35 as generally accepted accounting principles for governmental pension plans could create a situation resulting in the preparation of financial statements for public pension plans that may be subject to misinterpretations, especially in determining the proper level of funding for the plan." Accordingly, the NCGA statement urged government accountants to continue preparing financial statements in accordance with the principles stated in NCGA Statement 1.

In April 1983, the NCGA adopted Statement 6 "Pension Accounting and Financial Reporting: Public Employee Retirement Systems and State and Local Government Employers." In September of 1983, NCGA Statement 6 was deferred indefinitely. In November 1983, the FASB issued Statement No. 75 which deferred indefinitely the application of FASB No. 35 to pension plans of state and local governmental units.

In July 1984, GASB Statement 1 "Authoritative Status of NCGA Pronouncements and AICPA Industry Audit Guide" was issued stating that NCGA Statement 1, NCGA Statement 6, or FASB Statement No. 35 were acceptable accounting and reporting principles pending issuance of a new GASB Statement(s).

Accordingly, PERS has elected not to change its present accounting principles, except as to deferring gains on bond exchanges (see Note 4), until such time as consensus is reached among the various standard setting authorities.

Cash Receipts and Disbursements

For The Years Ended December 31, 1989 and 1988

	1989	1988
Cash Balance at Beginning of Year	$ 5,073,263	$ 13,232,659
Receipts:		
Members' Contributions	456,988,592	427,394,606
Employers' Contributions	774,672,008	744,316,776
Purchases of Back Service	11,150,849	12,607,836
State Subsidies	3,166,230	3,838,183
Short-Term Securities Matured and Sold	12,046,605,927	8,920,516,265
Investments Matured and Sold	23,564,494,632	18,730,861,157
Interest and Dividends	1,027,597,566	1,086,077,425
Undistributed Deposits	11,381,270	9,401,382
Miscellaneous	22,663,422	9,961,200
TOTAL CASH RECEIPTS	37,918,720,496	29,944,974,830
Disbursements:		
Refunds:		
Separation	83,150,689	77,120,435
Beneficiaries	2,126,612	4,100,236
Annuity Payments:		
Retirement Annuities	732,167,851	647,577,578
Disability Benefits	115,601,239	105,412,582
Survivor Annuities	63,468,900	58,446,254
Retirement to Other Systems	4,056,940	3,223,604
Short-Term Securities Purchased	13,371,714,221	11,042,732,745
Investment Purchases	23,538,307,862	18,002,577,847
Administrative Expenses	11,113,653	10,222,912
Additions to Fixed Assets and Furniture	6,921,000	1,720,033
TOTAL CASH DISBURSEMENTS	37,928,628,967	29,953,134,226
CASH BALANCE AT END OF YEAR	$ (4,835,208)	$ 5,073,263

Investment Summary

For The Year Ended December 31, 1989

	January 1, 1989 Book Value	January 1, 1989 Market Value	Purchas[illegible]
Bonds			
U.S. Gov't. & Agencies	$ 4,387,905,251	$ 4,434,844,001	$20,603,9[illegible]
Corporate			
Industrial	141,410,289		
Utilities	11,923,794		
Finance	19,102,820		
Total Corporate	172,436,903	112,059,482	
Canadian Obligations	1,044,950,796	1,048,905,217	634,2[illegible]
Mortgages	4,823,072,121	4,831,674,161	1,141,00[illegible]
Stocks	2,956,399,245	3,451,279,496	819,31[illegible]
Real Estate	433,926,567	496,188,654	335,90[illegible]
Venture Capital	34,273,561	24,038,372	3,56[illegible]
Total	$13,852,964,444	$14,398,989,383	$23,538,00[illegible]

Revenues by Source

Year	Members' Contributions	Employers' Contributions	Employers' Contributions as a Percentage of Covered Payroll	Investment Income (Net)	Other	Total
1980	$269,246,190	$439,006,229	13.92%	$ 329,014,384	$ 184,250	$1,037,451,05[illegible]
1981	284,930,608	469,535,130	13.93	457,387,532	230,852	1,212,084,1[illegible]
1982	311,779,921	505,809,912	13.93	686,420,515*	192,959	1,504,203,30[illegible]
1983	330,125,897	544,109,013	13.94	666,680,588	56,228	1,540,971,72[illegible]
1984	345,368,439	557,498,416	13.94	713,857,919	187,347	1,616,912,1[illegible]
1985	370,005,032	597,079,409	13.94	1,601,928,648	251,641	2,569,264,7[illegible]
1986	391,193,417	627,520,315	13.94	1,830,721,267	209,457	2,849,644,45[illegible]
1987	420,977,772	741,840,413	13.92	1,325,054,638	362,986	2,488,235,80[illegible]
1988	446,091,129	769,144,695	13.93	1,441,226,325	10,160,620	2,666,622,7[illegible]
1989	476,415,655	804,745,875	13.95	1,823,780,073	2,535,968	3,107,477,5[illegible]

*Reflects an increase of $137,685,082 in net investment income resulting from a change to the accrual basis of accounting as of December 31, 1982.

Maturities, Sales & Accruals	December 31, 1989 Book Value	Market Value	% Total Portfolio (Book Value)	Purchase Yield
$19,534,727,416	$ 5,457,109,355	$ 5,615,459,925	37.71%	8.64%
141,407,300	2,989	2,947		
11,923,794				
19,102,820				
172,433,914	2,989	2,947		7.52%
184,121,631	1,495,106,090	1,586,433,802	10.33	9.44%
2,051,290,352	3,912,786,505	4,028,940,322	27.04	9.65%
916,602,045	2,859,115,836	4,105,282,344	19.76	5.00%
39,691,264	730,142,364	785,548,004	5.05	
21,431,328	16,407,521	17,407,521	.11	2.44%
$22,920,297,950	$14,470,670,660	$16,139,074,865	100.00%	8.11%

Expenses by Type

Year	Benefit Payments	Refunds	Administrative Expenses	Total
1980	$299,609,180	$64,514,399	$ 5,798,912	$ 369,922,491
1981	345,857,579	76,238,930	6,620,678	428,717,187
1982	406,828,497	66,978,882	7,223,272	481,030,651
1983	466,770,558	63,144,826	8,774,539	538,689,923
1984	522,466,256	85,108,060	9,137,846	616,712,162
1985	581,512,580	76,636,067	9,144,206	667,292,853
1986	653,440,281	80,552,059	9,467,193	743,459,533
1987	723,438,025	81,802,444	10,271,197	815,511,666
1988	841,373,200	81,220,133	11,256,093	933,849,426
1989	914,787,338	85,276,351	12,040,343	1,012,104,032

Administrative Expenses

For The Years Ended December 31, 1989 and 1988

	1989	1988
Personal Services:		
Salaries and Wages	$ 5,991,624	$ 5,667,3[illegible]
Retirement Contributions	829,908	755,69[illegible]
Insurance	1,064,152	799,05[illegible]
Bureau of Employment Services	3,642	
	7,889,326	7,222,1[illegible]
Supplies:		
Office Supplies	180,459	166,22[illegible]
Printing and Publications	121,932	94,36[illegible]
Dues and Subscriptions	15,209	14,06[illegible]
	317,600	274,64[illegible]
Other Services and Charges:		
Professional Services:		
Auditing	54,990	66,40[illegible]
Actuarial and Technical	180,065	110,20[illegible]
Investment	300,125	382,64[illegible]
Medical	228,303	229,81[illegible]
Pension Review	33,046	7,92[illegible]
Employee Training	11,265	28,199
Data Processing Contract	109,598	101,759
Disaster Recovery	16,600	14,400
Communication:		
Telephone and Telegraph	125,851	123,49[illegible]
Freight, Express, and Drayage	5,618	6,859
Postage	704,183	655,770
Transportation and Travel	139,871	132,835
Utilities	167,239	170,03[illegible]
Equipment Rental	541,135	541,649
Repair and Maintenance:		
Equipment	1,307	2,436
Building	297,032	230,78[illegible]
Microfilm	33,194	25,04[illegible]
Retirement Study Commission	154,377	149,69[illegible]
Miscellaneous	23,917	16,650
	3,127,716	2,996,590
Depreciation On:		
Building	138,928	138,92[illegible]
Equipment and Fixtures	566,773	623,816
	705,701	762,740
TOTAL ADMINISTRATIVE EXPENSES	$12,040,343	$11,256,09[illegible]

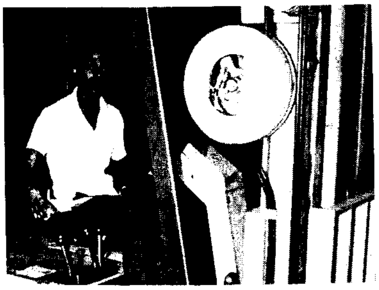
Public Employees Retirement System of Ohio

The Comprehensive
Annual Financial Report

For the Year Ended December 31, 1989

ACTUARIAL SECTION

Funds and reserves for benefits to members and retirants are accumulated through employer and



employee contributions, and investment income on the fund balance. For 1989, rate levels for contributions remained unchanged from the prior year. Investment income on the fund balance totaled $1.8 billion.

GABRIEL, ROEDER, SMITH & COMPANY
Actuaries & Consultants

200 Globe Building • 407 East Fort • Detroit, Michigan 48226 • 313-961-3346

March 2, 1990

The Retirement Board
Public Employees Retirement System of Ohio
277 East Town Street
Columbus, Ohio 43215

The basic financial objective of PERS is to establish and receive contributions which, expressed as percents of active member payroll, will remain approximately level from generation to generation of Ohio citizens.

In order to measure progress toward this fundamental objective, PERS has annual actuarial valuations to (i) compute present financial position, and (ii) test the adequacy of established contribution rates. The latest completed actuarial valuations were based upon data and assumptions as of December 31, 1988. These valuations indicate that the contribution rates, established by the Retirement Board for benefits then in effect, meet the basic financial objective.

Assumptions concerning future Retirement System experience in major risk areas are needed for an actuarial valuation. Each year an actuarial gain/loss analysis is performed which determines the relationship between assumed experience and actual experience in each such risk area. Cumulative experience over the last five years has been more favorable than assumed. The primary source of favorable experience has been substantial gains from investment income. These gains were partially offset by larger than assumed health care cost increases. The high rate of health care inflation in recent years continues to be a cause for concern. Overall, however, we continue to believe the assumptions used in the regular valuations produce results which are reasonable.

Based upon the valuation results, it is our opinion that the Public Employees Retirement System of Ohio continues in sound condition in accordance with actuarial principles of level percent of payroll financing.

Respectfully submitted,
GABRIEL, ROEDER, SMITH & COMPANY

Norman L. Jones, F.S.A.

Brian B. Murphy, F.S.A.

Summary of Assumptions

Adopted by Retirement Board After Consulting with Actuary

Funding Method. An entry age normal actuarial cost method of valuation is used in determining benefit liabilities and normal cost. Differences between assumed and actual experience (actuarial gains and losses) become part of unfunded actuarial accrued liabilities. Unfunded actuarial accrued liabilities are amortized to produce payments which are level percents of payroll contributions. Adopted 1975.

Assets Valuation Method. Assets are valued based on book value plus or minus 1) cumulative realized investment gains and losses and 2) a cumulative market value adjustment based on 20 percent of unrealized market appreciation on investment assets. Adopted 1988.

Valuation Data. The data about persons now covered and about present assets was furnished by the System's administrative staff. Data is examined for general reasonableness and year-to-year consistency, but is not audited by the Actuary.

Economic Assumptions. The following economic assumptions are used by the Actuary.

Investment Return. 1988—7.75 percent, compounded annually, for active and inactive members; and 7.5 percent, compounded annually, for retirants and beneficiaries; 1987—7.5 percent, compounded annually, for all members and beneficiaries. Adopted 1989.

Active Employee Total Payroll. Increasing 5.5 percent annually, compounded annually, which is the base portion of the individual pay increase assumption. In effect, this assumes no change in the number of active employees.

Individual Employee Pay Increases. An employee's pay is assumed to increase each year, in accordance with a table consisting of a percent increase for each age. For sample ages, the following table describes annual increase percents.

Age	Merit & Seniority		Base (Economy)	Increase Next Year	
	State	Local		State	Local
30	3.3%	2.8%	5.5%	8.8%	8.3%
40	2.3	1.9	5.5	7.8	7.4
50	1.5	1.1	5.5	7.0	6.6
60	0.7	0.6	5.5	6.2	6.1

Decrement Assumptions. The following tables of probabilities, adopted in 1981, for the indicated risk areas are used by the Actuary.

Mortality. The tables used in evaluating allowances to be paid were the 1971 Group Annuity Mortality Male and Female tables, projected to 1984.

Retirement. Probabilities of age and service retirement applicable to members eligible to retire are:

Retirement Ages	% Retiring Next Year		
	State & Local		Law Enforcement
	Men	Women	
50-61	15%	20%	20%
62	15	20	20
63	15	20	20
64	20	25	25
65	30	30	30
66	25	25	25
67	25	25	25
68	25	25	25
69	40	40	40
70	100	100	100

Turnover. Probabilities of separation from employment before age and service retirement because of death, withdrawal or disability are:

Sample Ages	Years of Service	% Separating Within Next Year								
		Death		Withdrawal					Disability	
				State		Law Enforcement	Local			
		Men	Women	Men	Women		Men	Women	Men	Women
	0			30.00%	30.00%	20.00%	30.00%	25.00%		
	1			22.00	22.00	15.00	22.00	20.00		
	2			18.00	18.00	12.00	18.00	18.00		
	3			12.00	15.00	10.00	12.00	15.00		
	4			10.00	12.00	7.00	10.00	12.00		
30	5 & Over	.10%	.08%	8.30	10.70	5.40	8.10	10.70	.07%	0.06%
40		.17	.13	5.40	6.60	4.00	5.70	6.60	.37	.21
50		.63	.36	2.60	3.80	2.40	3.20	3.80	1.04	.69
60		1.88	1.01	0.50	0.80	0.40	0.60	0.80		

Actuarial Valuation Data

Valuation Year	Active Members: Number	Active Members: Annual Payroll ($ Millions)	Active Members: Average Pay	Retired Lives: Number	Retired Lives: Annual Allowance ($ Millions)	Retired Lives: Av[erage] All[owance]
1979	261,513	$3,217	$12,302	69,858	$231	[illegible]
1980	256,688	3,441	13,405	73,620	257	[illegible]
1981	252,623	3,308	13,092	77,718	302	[illegible]
1982	248,855	3,654	14,683	81,166	331	[illegible]
1983	248,307	3,814	15,361	85,594	369	[illegible]
1984	248,483	4,044	16,278	90,302	424	[illegible]
1985	251,748	4,282	17,007	93,867	471	[illegible]
1986	254,619	4,543	17,842	97,906	519	[illegible]
1987	258,981	4,864	18,782	100,010	565	[illegible]
1988	264,868	5,307	20,036	103,150	630	[illegible]

Summary of Unfunded Accrued Liabilities

Each time a new benefit is added which applies to service already rendered, an "unfunded accrued liability" is created. Laws governing PERS require that these additional 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.

In an inflationary economy, the value of the dollar is decreasing. This environment results in employee pay increasing in dollar amounts resulting in unfunded accrued liabilities increasing in dollar amounts, all at a time when the actual substance of these items may be decreasing. Looking at just the dollar amounts of unfunded accrued liabilities can be misleading. Unfunded accrued liabilities divided by active employee payroll provides an index which clarifies understanding. The smaller the ratio of unfunded liabilities to active member payroll, the stronger the system. Observation of this relative index over a period of years will give an indication of whether the system is becoming financially stronger or weaker.

Summary of Assets and Actuarial Accrued Liabilities ($ Amounts in Millions)

Valuation Year	Actuarial Accrued Liabilities (AAL)	Valuation Assets	Unfunded Actuarial Accrued Liabilities (UAAL)	Ratio of Assets to AAL	Active Member Payroll	UAAL as a % of Active Member Payroll
1979	$ 8,965	$ 4,667	$4,298	52%	$3,217	134%
1980	10,388	5,235	5,153	50	3,441	150
1981	11,055	6,106	4,949	55	3,308	150
1982	12,399	7,145	5,254	58	3,654	144
1983	13,976	8,156	5,820	58	3,814	153
1984	15,473	9,156	6,317	59	4,044	156
1985	17,138	11,049	6,089	64	4,282	142
1986	18,558	13,403*	5,155	72	4,543	113
1987	20,282	14,899*	5,383	73	4,864	111
1988	22,378	16,515*	5,863	74	5,307	110

*Includes market adjustment

Short-Term Solvency Test

The PERS financing objective is to pay for the benefits through contributions that remain approximately level from year to year as a percent of member payroll. If the contributions to the system are level in concept and soundly executed, the system will *pay all promised benefits when due—the ultimate test of financial soundness.*

A short-term solvency test is one means of checking a system's progress under its funding program. In a short-term solvency test, the plan's present assets (cash and investments) are compared with: 1) Active member contributions on deposit; 2) The liabilities for future benefits to present retired lives; 3) The liabilities for service already rendered by active members. In a system that has been following the discipline of level percent of payroll financing, the liabilities for active member contributions on deposit (1) and the liabilities for future benefits to present retired lives (2) will be fully covered by present assets (except in rare circumstances). In addition, the liabilities for service already rendered by active members (3) will be partially covered by the remainder of present assets. Generally, if the system has been using level cost financing, the funded portion of column 3 will increase over time. Column 3 being fully funded is very rare.

It is wise to pay attention to both fundamental and short-term solvency tests.

Accrued Liabilities ($ Amounts in Millions)

Valuation Year	(1) Active Member Contributions	(2) Retirants and Beneficiaries	(3) Active Members (Employer Financed Portion)	Valuation Assets	Portion of Accrued Liabilities Covered by Reported Assets (1)	(2)	(3)
1979	$1,216	$2,414	$5,334	$ 4,667	100	100	19
1980	1,363	2,710	6,316	5,235	100	100	18
1981	1,491	3,296	6,268	6,106	100	100	21
1982	1,664	3,588	7,146	7,145	100	100	26
1983	1,843	4,011	8,123	8,156	100	100	28
1984	2,011	4,486	8,976	9,156	100	100	30
1985	2,190	5,031	9,917	11,049	100	100	40
1986	2,358	5,540	10,660	13,403*	100	100	52
1987	2,615	6,111	11,556	14,899*	100	100	53
1988	2,843	6,884	12,651	16,515*	100	100	54

*Includes market adjustment.

Actual vs. Recommended Contribution Rates

The Board adopted all contribution rates as recommended by the Actuary

Analysis of Financial Experience

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

Type of Activity	Gain (or Loss) For Year $ in Millions 1988	1987	1986
Age & Service Retirements. If members retire at older ages than assumed, there is a gain. If younger ages, a loss.	**$ 22.0**	$ 4.2	$ (1.5)
Disability Retirements. If disability claims are less than assumed, there is a gain. If more claims, a loss.	**14.5**	5.6	15.9
Death-In-Service Annuities. If survivor claims are less than assumed, there is a gain. If more claims, a loss.	**19.9**	27.9	9.2
Other Separations. If more liabilities are released by other separations than assumed, there is a gain. If smaller releases, a loss.	**(243.3)**	(150.9)	(136.1)
Pay Increases. If there are smaller pay increases than assumed, there is a gain. If greater increases, a loss.	**(244.9)**	66.9	109.0
Investment Return. If there is greater investment return than assumed, there is a gain. If less return, a loss.	**233.1**	133.6	980.8
Health Insurance & Medicare Premiums. If there are smaller increases than assumed, there is a gain. If greater increases, a loss.	**(390.8)**	(244.8)	(199.4)
Gain (or Loss) During Year From Financial Experience	**$(589.5)**	$(157.5)	$777.9

The Comprehensive Annual Financial Report

For the Year Ended December 31, 1989

STATISTICAL SECTION

PERS

During 1989, disbursements to members and retirants totaled $1 billion, and included $711 million to retirants and their beneficiaries, $204 million for health care costs, and $85 million to members because of separation or death.

Employer Contribution Rates

		Current			Unfunded Liability		
	Year	**Normal**	**Health**	**Survivor Benefits**	**Past Service**	**Health**	**Total**
State	1980	6.41%	1.31%	1.34%	3.92%	0.73%	**13.71%**
	1981	6.40	1.27	1.04	4.09	0.91	**13.71**
	1982	5.77	1.10	0.99	4.93	0.92	**13.71**
	1983	4.55	1.65	0.86	5.25	1.40	**13.71**
	1984	4.61	1.70	0.80	5.13	1.47	**13.71**
	1985	4.73	2.17	0.84	4.47	1.50	**13.71**
	1986	4.84	2.23	0.75	4.35	1.54	**13.71**
	1987	4.98	2.19	0.84	4.22	1.48	**13.71**
	1988	5.43	2.78	1.06	3.36	1.08	**13.71**
	1989	5.63	2.91	1.07	3.21	0.89	**13.71**
Local	1980	6.79	1.75	1.38	3.33	0.70	**13.95**
	1981	6.67	1.65	1.06	3.65	0.92	**13.95**
	1982	6.03	1.27	1.07	4.66	0.92	**13.95**
	1983	4.86	1.97	0.92	4.83	1.37	**13.95**
	1984	4.83	2.20	0.88	4.56	1.48	**13.95**
	1985	4.99	2.53	0.91	4.02	1.50	**13.95**
	1986	4.95	2.76	0.80	3.87	1.57	**13.95**
	1987	5.11	2.69	0.90	3.75	1.50	**13.95**
	1988	5.00	3.18	1.05	3.49	1.23	**13.95**
	1989	5.08	3.49	1.06	3.26	1.06	**13.95**
Law Enforcement	1980	11.82	1.75	0.94	2.89	0.70	**18.10**
	1981	11.35	1.65	1.28	3.46	0.36	**18.10**
	1982	10.38	1.27	1.58	4.47	0.40	**18.10**
	1983	8.66	2.00	1.42	5.27	0.75	**18.10**
	1984	8.15	2.32	1.57	5.14	0.92	**18.10**
	1985	8.19	2.90	1.56	4.35	1.10	**18.10**
	1986	8.07	3.12	1.53	4.30	1.08	**18.10**
	1987	7.99	3.05	1.52	4.45	1.09	**18.10**
	1988	8.58	3.45	1.55	3.52	1.00	**18.10**
	1989	8.64	3.90	1.55	2.89	1.12	**18.10**

Actuarial Valuation Data

Valuation Year	Active Members: Number	Active Members: Annual Payroll ($ Millions)	Active Members: Average Pay	Retired Lives: Number	Retired Lives: Annual Allowance ($ Millions)	Retired Lives: Average Allowance
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1981	252,623	3,308	13,092	77,718	302	3,880
1982	248,855	3,654	14,683	81,166	331	4,076
1983	248,307	3,814	15,361	85,594	369	4,285
1984	248,483	4,044	16,278	90,302	424	4,691
1985	251,748	4,282	17,007	93,867	471	5,021
1986	254,619	4,543	17,842	97,906	519	5,298
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Resulting From Differences Between Assumed Experience & Actual Experience

Type of Activity	Gain (or Loss) For Year $ in Millions 1988	1987	1986
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Other Separations. If more liabilities are released by other separations than assumed, there is a gain. If smaller releases, a loss.	**(243.3)**	(150.9)	(136.1)
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Gain (or Loss) During Year From Financial Experience	**$(589.5)**	$(157.5)	$777.9

Disbursements by Category

	Benefits					
Year	Annuities	Disabilities	Other Systems	Survivors	CPI	Post Retirement Legislative Incr.
1980	$170,755,615	$ 21,862,642	$1,849,714	$21,521,104	$19,101,857	$18,956,041
1981	192,045,068	24,970,899	1,967,683	22,974,505	24,942,579	23,399,149
1982	214,286,038	27,372,888	2,023,006	24,535,836	31,468,090	27,594,317
1983	239,346,014	29,678,413	2,615,346	25,977,513	38,569,453	25,841,902
1984	266,061,642	32,411,456	3,227,849	27,608,949	46,263,861	40,967,243
1985	297,771,528	36,811,337	3,818,776	29,136,086	54,905,210	40,238,117
1986	330,641,045	41,693,306	2,902,443	31,076,948	64,319,209	38,034,762
1987	363,424,328	46,658,177	3,231,189	33,044,661	73,612,942	35,800,025
1988	416,758,803	51,625,775	3,223,604	34,735,329	80,357,076	33,742,346
1989	463,455,461	57,151,688	4,061,810	36,392,135	92,146,600	53,475,739

MEMBER COUNT

Year-End	Active Contributing	Inactive	Total
1980	258,559	52,782	**311,341**
1981	255,097	53,005	**308,102**
1982	251,169	52,454	**303,623**
1983	250,566	53,560	**304,126**
1984	250,796	53,931	**304,727**
1985	254,797	54,746	**309,543**
1986	258,608	56,710	**315,318**
1987	262,208	60,291	**322,499**
1988	268,460	63,642	**332,102**
1989	266,866	80,630	**347,496**

MEMBER CONTRIBUTION RATES

Year	Contribution Rate
1980	8.5%
1981	8.5
1982	8.5*
1983	8.5*
1984	8.5*
1985	8.5*
1986	8.5*
1987	8.5*
1988	8.5*
1989	8.5*

*Effective November 1982. Law Enforcement Contribution Rate is 9.5%.

		Refunds			
Health Care	Death Benefits	Separation	Beneficiaries	Other	Total All Payments
$ 44,182,218	$1,379,989	$61,560,229	$ 2,515,380	$ 438,790	**$ 364,123,579**
54,033,205	1,524,491	73,182,786	2,617,655	438,489	**422,096,509**
78,112,241	1,436,081	63,954,454	2,722,037	302,391	**473,807,379**
103,156,330	1,585,587	59,871,357	2,673,207	600,262	**529,915,384**
104,257,965	1,667,291	80,620,354	3,154,663	1,333,043	**607,574,316**
117,178,501	1,653,025	72,916,583	3,135,948	583,536	**658,148,647**
143,141,885	1,630,683	76,349,378	3,243,057	959,624	**733,992,340**
166,021,858	1,644,845	78,282,220	3,302,041	218,183	**805,240,469**
219,010,835	1,919,432	76,778,952	4,099,350	341,831	**922,593,333**
203,624,998	4,478,907	80,927,621	3,751,617	597,113	**1,000,063,689**

NUMBER OF EMPLOYER UNITS

Year	State	County	Law Enforcement	Municipalities	Villages	Miscellaneous	Libraries	Townships	Totals
1980	253	193	88	284	560	327	248	1,275	**3,228**
1981	252	200	146	291	569	328	249	1,286	**3,321**
1982	248	207	151	294	576	348	249	1,267	**3,340**
1983	259	170	162	300	584	353	249	1,342	**3,419**
1984	270	184	148	330	561	371	254	1,296	**3,414**
1985	239	197	174	296	599	355	249	1,302	**3,411**
1986	239	235	175	338	603	288	251	1,306	**3,435**
1987	240	236	177	342	607	299	252	1,306	**3,459**
1988	240	239	186	341	601	298	251	1,309	**3,465**
1989	260	241	197	341	605	309	254	1,310	**3,517**

Schedule of Average Benefit Payments*

	Years Credited Service					
	5-9	10-14	15-19	20-24	25-30	30+
Period 1/1/85-12/31/85						
Average Monthly Benefit*	$183.28	$340.32	$512.33	$721.83	$968.69	$1,435.89
Average Final Average Salary	$12,157.41	$15,590.49	$17,547.10	$19,397.22	$21,671.20	$24,777.64
Number of Active Recipients	1,044	1,161	1,114	867	731	1,176
Period 1/1/86-12/31/86						
Average Monthly Benefit*	$165.90	$331.60	$518.41	$712.99	$955.05	$1,375.28
Average Final Average Salary	$12,104.91	$15,598.33	$18,183.33	$19,823.61	$22,032.37	$24,478.15
Number of Active Recipients	1,399	1,247	1,158	881	682	1,180
Period 1/1/87-12/31/87						
Average Monthly Benefit*	$206.37	$354.38	$534.60	$734.08	$969.75	$1,496.07
Average Final Average Salary	$12,584.37	$16,672.67	$19,276.48	$20,837.22	$22,792.97	$26,410.91
Number of Active Recipients	384	1,000	993	921	796	1,729
Period 1/1/88-12/31/88						
Average Monthly Benefit*	$226.12	$341.94	$552.81	$748.55	$1,014.17	$1,626.05
Average Final Average Salary	$13,590.58	$16,366.51	$20,114.95	$21.319.31	$24,341.72	$29,037.89
Number of Active Recipients	448	1,033	1,055	1,034	824	2,026
Period 1/1/89-12/31/89						
Average Monthly Benefit*	$246.86	$375.17	$568.01	$789.04	$1,026.92	$1,654.94
Average Final Average Salary	$16,016.61	$17,986.30	$21,279.37	$23,484.21	$24,867.99	$29,384.99
Number of Active Recipients	369	944	905	796	749	1,493
Period 1/1/85-12/31/89						
Average Monthly Benefit*	$205.71	$348.68	$537.23	$741.30	$986.92	$1,517.64
Average Final Average Salary	$13,290.78	$16,442.86	$19,280.25	$20,972.31	$23,141.25	$26,817.92
Number of Active Recipients	3,644	5,385	5,225	4,499	3,782	7,604

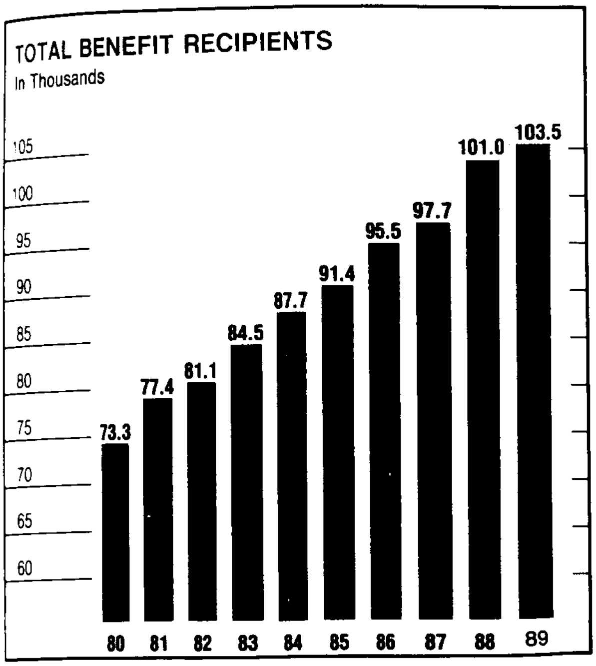
* "Average Monthly Benefit" includes post retirement and yearly 3% cost-of-living increases.

Number of Benefit Recipients By Category

Year End	Annuities	Disabilities	Survivors	Total
1980	58,798	5,184	9,354	**73,336**
1981	62,212	5,565	9,614	**77,391**
1982	65,363	5,807	9,901	**81,071**
1983	68,345	6,017	10,132	**84,494**
1984	71,228	6,189	10,315	**87,732**
1985	74,407	6,517	10,467	**91,391**
1986	77,960	6,864	10,681	**95,505**
1987	79,648	7,272	10,828	**97,748**
1988	82,462	7,560	10,940	**100,962**
1989	84,676	7,916	10,957	**103,549**

Number of New Benefit Recipients and Refund Payments

Year	Annuities	Disabilities	Survivors	Refund
1980	5,068	715	727	**36,831**
1981	5,772	693	667	**35,108**
1982	5,445	563	631	**28,283**
1983	5,143	509	596	**23,665**
1984	5,475	562	568	**28,988**
1985	5,516	683	535	**21,766**
1986	6,196	730	620	**22,976**
1987	4,567	775	560	**22,246**
1988	5,731	703	513	**23,547**
1989	5,026	728	500	**23,008**


TOTAL BENEFIT RECIPIENTS
In Thousands
105
100
95
90
85
80
75
70
65
60
73.3
77.4
81.1
84.5
87.7
91.4
95.5
97.7
101.0
103.5
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81
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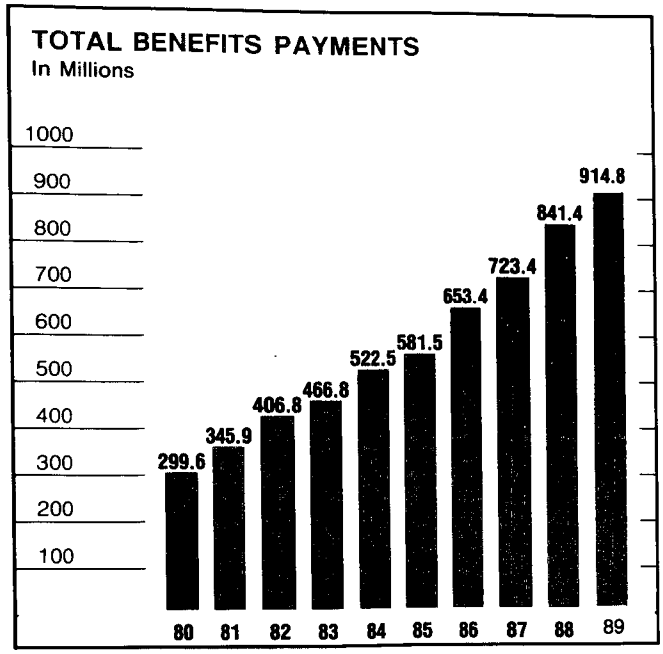
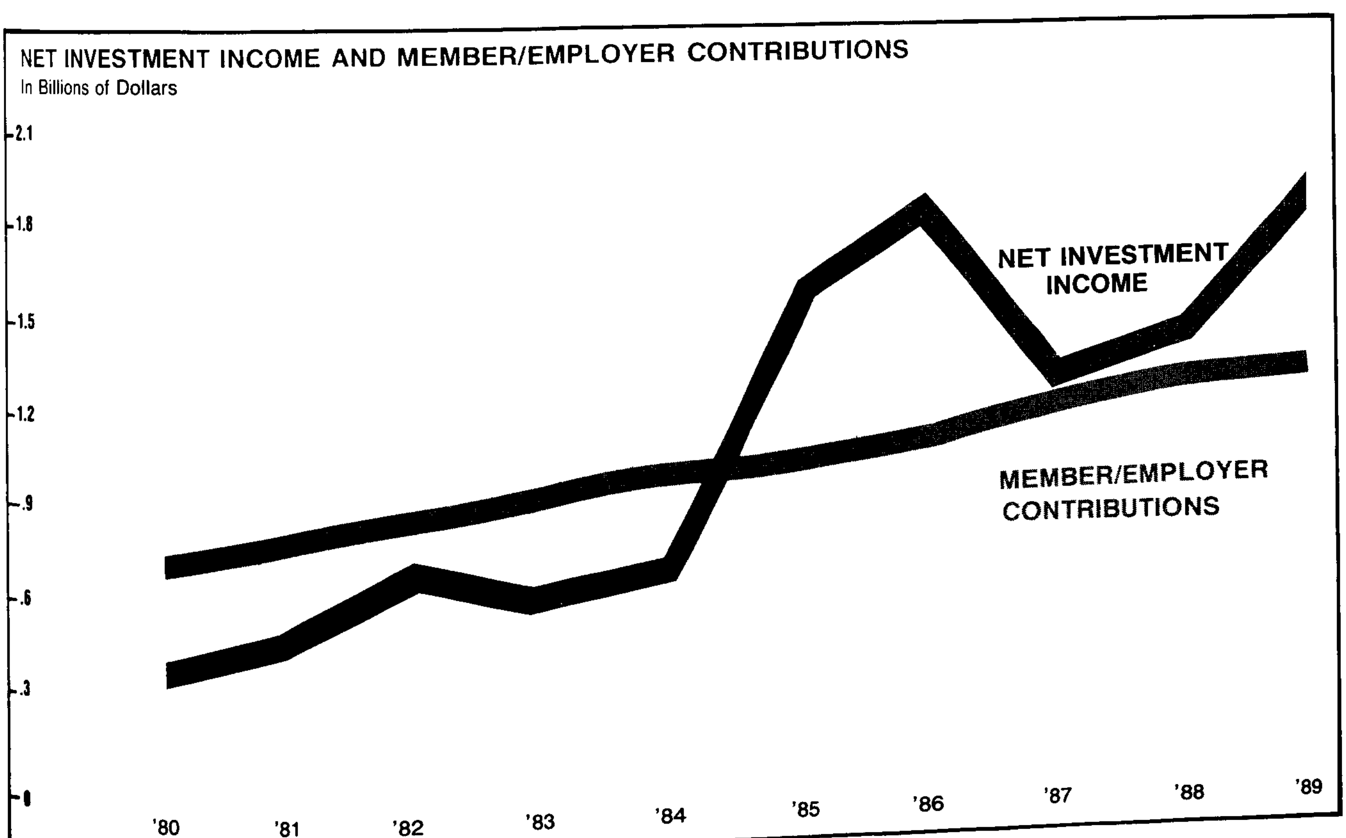
83
84
85
86
87
88
89


TOTAL BENEFITS PAYMENTS
In Millions
1000
900
800
700
600
500
400
300
200
100
299.6
345.9
406.8
466.8
522.5
581.5
653.4
723.4
841.4
914.8
80
81
82
83
84
85
86
87
88
89


NET INVESTMENT INCOME AND MEMBER/EMPLOYER CONTRIBUTIONS
In Billions of Dollars
2.1
1.8
1.5
1.2
.9
.6
.3
0
NET INVESTMENT INCOME
MEMBER/EMPLOYER CONTRIBUTIONS
'80
'81
'82
'83
'84
'85
'86
'87
'88
'89

The Comprehensive
Annual Financial Report

For the Year Ended December 31, 1989

INVESTMENT SECTION

PERS

For 1989, PERS' total fund performance compared favorably with the performance of funds with similar asset allocation and investment restraints.

Investment Report

Economic Activity in 1989

The forecasts concerning the economy and its impact on the various financial markets turned from inflationary fears at the beginning of the year to recessionary concerns by year-end. Despite this economic uncertainty, the stock market and the bond market turned in their best performance since 1984 and 1986, respectively. However, the real estate market continued its downturn as the New England area joined the Southwest as "casualties" of over-building and unsound lending practices.

While the economy was slowing as 1989 drew to a close, the Gross National Product grew at a moderate rate of 3.0 percent in 1989 versus 3.9 percent in 1988 (as measured in 1982 dollars). Inflation, as measured by the annual percentage change in the Consumer Price Index, rose slightly in 1989 to 4.8 percent from 4.4 percent in 1988. The civilian unemployment rate remained unchanged at 5.3 percent in 1989.

1989 Performance of Stock, Bond, and Real Estate Sectors

The Salomon Broad Index, a proxy for the bond market, returned 14.44 percent in 1989 versus 7.98 percent in 1988. Total return measures price changes and interest income. Interest rates initially rose until midyear then declined for the remainder of the year as the Federal Reserve Board did a balancing act between fighting inflation and keeping the economy out of a recession. The bond market's midyear rally (bond prices move inversely to the direction of interest rates) was curtailed in the fourth quarter as a rally in gold and slumping dollar subdued the drop in interest rates. By year-end, the 30-year Treasury yield reached 7.97 percent, over one full percentage point lower than where it began 1989. Treasury bonds with maturities of 10 years and more produced superior returns to shorter dated bonds and other sectors of the bond market (mortgages, corporates, Canadians, etc.)

During the first three quarters of 1989, takeover speculation and program trading played a substantial role in the performance of the stock market. In late August, the stock market, as measured by the Dow Jones Industrial Average (DJIA) surpassed its pre-crash (October 1987) record close of 2722.42. In the fourth quarter failed takeover attempts triggered a mini-crash as the DJIA plummeted 190 points. After the mini-crash, the stock market focused more on fundamentals and less on takeover mania. As a result, the DJIA finished the year at 2753.20, up 27.0 percent.

The real estate market as measured by the Frank Russell Index rose 5.02 percent for the year ended Dec. 31, 1989. Concerns over how the federal government would dispose of insolvent thrifts and their foreclosed real estate properties under the Financial Institutions Reform, Recovery and Enforcement Act of 1989 depressed an already weak real estate market. Tougher enforcement of real estate lending regulations by the Office of the Comptroller of the Currency resulted in increased findings of bad real estate loans and tighter credit conditions in the New England market. The lack of lendable funds for real estate projects only quickened the market's decline.

As the 1980s came to a close, the disinflationary environment in the decade was beneficial for financial assets. Equities returned an average annual rate of 17.5 percent and long-term government bonds delivered an average annual return of 12.6 percent. These results compare to the long-term (1926 to 1989) returns for equities and long-term government bonds of 10.3 percent and 4.6 percent, respectively.

PERS Performance

In 1989, PERS' investment returns significantly exceeded the actuarially assumed returns and outperformed other investment plans with similar asset allocation and investment constraints. PERS' total fund performance was 18.4 percent versus an actuarial rate of 7.75 percent. The median return for other investment plans with similar asset allocation and investment constraints was 17.5 percent.

PERS' bond portfolio had a total return of 17.14 percent in 1989, outperforming the Salomon Broad Index by 2.7 percentage points. The PERS' bond returns benefited from having a longer average maturity than the Index. In addition, PERS' bond returns were enhanced by having a greater than Index weighting in Treasuries and by having a limited exposure to corporate bonds.

The PERS' equity portfolio finished the year with a 30.8 percent total return. The results surpassed the Dow Jones Industrial Average appreciation of 27.0 percent. PERS' favorable equity performance was enhanced by large holdings in beverages, drugs, electrical equipment, electric utilities, paper and forest products, insurance and energy companies. These combined segments accounted for approximately 70.0 percent of the equity portfolio and outperformed the major stock averages.

PERS' real estate portfolio had a total return of 5.59 percent versus 5.02 percent for the Frank Russell Index. Multifamily properties (apartments) with strong cash flows comprised the largest segment of the real estate portfolio at 33 percent.

Economic Outlook for 1990

The economy is entering the new year and the new decade with mixed signals regarding its continued expansion. Expectations are for 1990 economic growth to be slightly less than 1989's results. Until the economy gives clearer signs of growth or retraction, the Federal Reserve Board will continue to fine-tune its monetary policy. The result will be a narrow trading range for interest rates. Despite the Federal Reserve's efforts, inflation appears unlikely to move below the 1989 rate. With a slight slowdown in economic growth, the unemployment rate may increase marginally from the 5.3 percent level in 1989. Any increase in unemployment will probably result in further political pressure on the Federal Reserve to ease its monetary policy. The savings and loan bailout combined with stricter enforcement of prudent lending practices appears to be resulting in a shortage of lendable funds in certain regions of the country. This dearth of financing is expected to hamper new starts for most types of real estate construction activity.

Objectives for 1990

In the 1990s, a shortage of lendable funds arising from the savings and loan and bank crises will probably lead to a slower-growth economic environment. After the beneficial performance of financial assets in the 1980s, the expected returns of most asset categories will probably move closer to the historical norms.

Our goal for 1990 is to continue to achieve a total return for the fund in excess of our actuarially assumed rate of return plus administrative expenses. We expect to achieve our goal by continuing to stress quality and call protection in our bond portfolio. In equities, our focus will continue to be on companies with attractive long-term fundamentals and high dividend yield. Finally, in real estate, our strategy is to put greater emphasis on investments which can provide stable cash flows.

Investment Portfolio Summary

As of December 31, 1989

	Par Value	Book Value	Market Value	% of Portfolio (Book Value)	Yield
Bonds					
U.S. Gov't. & Agencies	$10,858,055,400	$5,457,109,355	$ 5,615,459,925	37.71%	8.64%
Corporate	3,000	2,989	2,947		7.52%
Canadian	1,501,468,000	1,495,106,090	1,586,433,802	10.33	9.44%
Mortgages	4,690,424,355	3,912,786,505	4,028,940,322	27.04	9.65%
Stocks (at Cost)		2,859,115,836	4,105,282,344	19.76	5.00%
Real Estate		730,142,364	785,548,004	5.05	
Venture Capital		16,407,521	17,407,521	.11	2.44%
Total Portfolio		$14,470,670,660	$16,139,074,865	100.00%	8.11%

Detailed Listing of Investment Portfolio

As of December 31, 1989

U.S. GOVERNMENT & AGENCIES' BONDS

Name	Coupon	Maturity	Par Value	Book Value	Market Value
FHA—Series MM	4.625%	12/01/1992	$ 3,400	$ 2,656	$ 3,195
Government Trust Certificates Class 1-D	0.000%	11/15/2001	38,350,000	12,738,563	14,362,842
Government Trust Certificates Class 1-D	0.000%	11/15/2002	35,550,000	10,733,444	12,240,220
Government Trust Certificates Class 1-D	0.000%	05/15/2004	43,700,000	11,488,555	13,286,111
Government Trust Certificates Class 1-D	0.000%	11/15/2004	17,900,000	4,491,735	5,220,893
Government Trust Certificates Class 1-D	0.000%	05/15/2005	18,035,000	4,319,846	5,046,553
Government Trust Certificates Class 1-D	0.000%	05/15/2008	62,780,000	11,390,030	13,842,362
Government Trust Certificates Class 1-D	0.000%	11/15/2008	30,000,000	5,233,018	6,359,400
Government Trust Certificates Class 1-D	0.000%	11/15/2009	9,395,000	1,548,432	1,834,185
Government Trust Certificates Class 1-D	0.000%	11/15/2010	5,000,000	719,095	900,850
Government Trust Certificates Class 1-D	0.000%	05/15/2011	36,000,000	4,952,278	6,237,720
Government Trust Certificates Class 1-D	0.000%	11/15/2011	28,000,000	3,677,107	4,676,000
Government Trust Certificates Class 1-D	0.000%	05/15/2012	24,000,000	3,015,230	3,847,200
Government Trust Certificates Class 1-D	0.000%	11/15/2012	12,000,000	1,439,253	1,850,520
Government Trust Certificates Class 1-D	0.000%	05/15/2013	14,000,000	1,610,005	2,063,180
Government Trust Certificates Class 2-E	9.400%	05/15/2002	7,100,000	7,079,047	7,561,500
Government Trust Certificates Class 2-F	0.000%	11/15/1995	24,860,000	14,560,515	15,401,764
Government Trust Certificates Class 2-F	0.000%	05/15/1996	29,000,000	16,187,547	17,246,590
Government Trust Certificates Class 2-F	0.000%	05/15/2004	63,000,000	16,557,405	19,153,890
Government Trust Certificates Class 2-F	0.000%	05/15/2005	39,000,000	9,393,170	10,912,980
Government Trust Certificates Class 2-F	0.000%	11/15/2005	76,000,000	17,474,719	20,464,520
Government Trust Certificates Class 2-F	0.000%	11/15/2006	29,900,000	6,266,420	7,423,572
U.S. Treasury Receipts	0.000%	02/15/2015	1,462,150,000	186,766,700	204,554,785

NOTE: Cents omitted. Columns will not add.

Name	Coupon	Maturity	Par Value	Book Value	Market Value
U.S. Treasury Receipts	0.000%	08/15/2015	$ 278,301,000	$ 35,887,534	$ 37,623,512
U.S. Treasury Receipts	0.000%	11/15/2015	2,120,700,000	225,741,240	281,904,651
U.S. Treasury Receipts	0.000%	02/15/2016	511,289,000	59,289,030	66,978,859
U.S. Treasury Receipts	0.000%	05/15/2017	854,610,000	93,349,655	103,211,249
U.S. Treasury Receipts	0.000%	05/15/2018	100,000,000	11,593,116	11,426,000
U.S. Treasury Receipts	0.000%	11/15/2018	127,045,000	14,093,875	14,049,906
U.S. Treasury Receipts	0.000%	02/15/1991	42,400,000	38,422,981	38,851,544
U.S. Treasury Receipts	0.000%	02/15/1994	34,575,000	25,138,291	25,067,220
U.S. Treasury Receipts	0.000%	05/15/1991	197,435,000	175,239,070	177,446,680
U.S. Treasury Receipts	0.000%	11/15/1991	38,990,000	33,910,803	33,707,244
U.S. Treasury Receipts	0.000%	02/15/2016	70,730,000	9,195,785	9,324,335
United States Treasury	7.625%	05/15/1993	89,170,000	88,730,658	88,250,657
United States Treasury	8.125%	05/31/1990	3,310,000	3,308,473	3,311,555
United States Treasury	8.875%	07/15/1995	40,350,000	39,997,299	41,888,142
United States Treasury	9.250%	08/15/1998	16,960,000	18,173,673	18,210,800
United States Treasury	8.875%	02/15/1994	34,750,000	36,013,579	35,857,482
United States Treasury	9.375%	02/28/1991	75,000,000	74,841,926	76,125,000
United States Treasury	9.750%	03/31/1991	1,535,180,000	1,539,674,406	1,566,359,505
United States Treasury	9.375%	04/15/1996	15,700,000	16,573,739	16,720,500
United States Treasury	9.250%	04/30/1991	84,225,000	84,553,144	85,540,594
United States Treasury	9.125%	05/15/1999	33,640,000	36,449,857	36,068,471
United States Treasury	8.750%	05/31/1991	924,490,000	928,893,709	933,734,900
United States Treasury	8.250%	06/30/1991	67,590,000	67,979,541	67,822,509
United States Treasury	7.750%	07/31/1991	384,675,000	382,622,553	383,351,718
United States Treasury	8.000%	10/15/1996	10,340,000	10,414,571	10,354,579
United States Treasury	7.625%	10/31/1991	51,825,000	51,530,328	51,541,517
United States Treasury	7.875%	11/15/1999	382,445,000	384,642,892	381,072,022
United States Treasury	7.750%	02/15/1995	201,000,000	199,995,544	199,962,840
United States Treasury	7.500%	11/15/2016	200,237,000	182,641,630	188,473,076
United States Treasury	8.750%	05/15/2017	144,357,000	155,146,287	155,589,418
United States Treasury	8.125%	08/15/2019	24,418,000	25,109,534	24,822,362
United States Treasury	7.500%	08/15/1991	31,195,000	30,981,025	30,956,046
United States Treasury	7.125%	02/28/1990	25,400,000	25,328,810	25,364,186
Total			**$10,858,055,400**	**$ 5,457,109,355**	**$ 5,615,459,925**

CORPORATE BONDS

Name	Coupon	Maturity	Par Value	Book Value	Market Value
Petroleum Facilities Inc. (Series T)	4.700%	06/01/1990	$ 3,000	$ 2,989	$ 2,947
Total			**$ 3,000**	**$ 2,989**	**$ 2,947**

CANADIAN BONDS

Name	Coupon	Maturity	Par Value	Book Value	Market Value
British Columbia Hydro & Power	15.000%	04/15/2011	$ 34,470,000	$ 45,500,273	$ 45,770,300
British Columbia Hydro & Power	15.500%	11/15/2011	43,750,000	59,603,396	60,385,500
Hydro Quebec	13.250%	10/15/2010	7,000,000	8,520,828	8,604,120
Hydro Quebec	13.375%	02/15/2013	13,500,000	16,889,222	17,415,675
Hydro Quebec	13.250%	12/15/2013	9,770,000	12,026,989	12,692,207
Hydro Quebec	11.750%	02/01/2012	15,375,000	18,174,378	19,829,137
Hydro Quebec	8.875%	03/01/2026	107,900,000	99,142,446	110,633,107
Hydro Quebec	8.250%	04/15/2026	164,540,000	140,899,151	157,361,119
Hydro Quebec	8.250%	01/15/2027	119,650,000	105,211,149	114,607,949
Hydro Quebec	9.750%	01/15/2018	8,175,000	8,242,082	8,641,220
Hydro Quebec	8.625%	06/15/2029	126,950,000	127,863,472	126,866,213
Hydro Quebec	8.500%	12/01/2029	111,220,000	110,960,078	109,586,178
Hydro Quebec	9.300%	02/15/1996	20,000,000	19,818,885	20,542,000
Hydro Quebec	9.710%	06/15/2005	6,600,000	6,886,742	6,924,522

NOTE: Cents omitted. Columns will not add.

Name	Coupon	Maturity	Par Value	Book Value	Market Value
New Brunswick Electric Power Commission	9.000%	02/15/1997	$ 2,813,000	$ 2,680,350	$ 2,681,379
Petro-Canada	8.250%	12/15/2016	11,455,000	10,283,682	11,094,167
Petro-Canada	9.700%	06/30/2018	38,600,000	39,297,788	43,607,578
Province of Manitoba	7.750%	07/17/2016	24,935,000	22,900,367	24,326,835
Province of Manitoba	9.125%	01/15/2018	18,200,000	19,153,714	19,554,262
Province of Manitoba	9.625%	12/01/2018	172,015,000	171,031,122	188,912,033
Province of New Brunswick	9.500%	03/03/2018	43,400,000	44,906,575	44,515,380
Province of Nova Scotia	9.500%	02/01/2019	90,550,000	91,089,962	98,063,839
Province of Nova Scotia	8.875%	07/01/2019	77,660,000	78,126,662	78,894,794
Province of Ontario	17.000%	11/05/2011	7,000,000	10,175,209	10,194,170
Province of Ontario	15.750%	03/15/2012	13,330,000	18,413,281	18,714,253
Province of Ontario	15.250%	08/31/2012	16,700,000	22,818,219	23,215,171
Province of Quebec	13.000%	10/01/2013	3,000,000	3,707,302	3,839,880
Province of Quebec	13.250%	09/15/2014	19,815,000	24,380,460	25,986,976
Province of Quebec	8.625%	12/01/2026	173,095,000	156,402,293	172,973,833
Total			**$ 1,501,468,000**	**$ 1,495,106,090**	**$ 1,586,433,802**

MORTGAGES

Name	Coupon	Maturity	Par Value	Book Value	Market Value
FnMA—FHA Project—Pool 2494	8.000%	04/01/2008	$108,946,589	$102,672,107	$103,805,400
FnMA—FHA Project—Pool 6895	8.500%	02/01/2009	2,943,416	2,906,624	2,867,064
FnMA—FHA Project—Pool 7238	8.000%	06/01/2008	25,734,637	23,242,847	24,520,219
FnMA—FHA Project—Pool 7239	8.000%	08/01/2008	9,557,729	8,991,732	9,106,699
FnMA—FHA Project—Pool 7748	7.250%	04/01/2006	43,948,144	39,223,719	40,322,422
FnMA—FHA Project—Pool 8213	8.000%	01/01/2008	15,676,276	14,097,691	14,936,513
FnMA—FHA Project—Pool 8300	7.500%	07/01/2007	68,451,594	61,095,784	63,809,207
FnMA—FHA Project—Pool 8307	8.000%	05/01/2008	141,409,635	132,707,130	134,736,514
FnMA—FHA Project—Pool 36204	8.000%	03/01/2008	15,588,736	14,214,979	14,385,442
FnMA—FHA Project—Pool 39014	7.500%	03/01/2017	6,712,513	5,774,859	5,722,418
FnMA—FHA Project—Pool 40620	7.500%	01/01/2017	7,736,806	7,378,979	7,096,044
FnMA—FHA Project—Pool 44045	8.000%	06/01/2008	368,433,342	336,261,339	351,046,972
FnMA—FHA Project—Pool 44046	7.500%	02/01/2014	155,937,944	138,964,190	145,362,233
FnMA—FHA Project—Pool 44047	7.000%	12/01/2007	98,935,548	86,957,833	89,784,010
FnMA—FHA Project—Pool 44048	7.000%	12/01/2005	45,429,088	40,907,723	41,226,898
FnMA—FHA Project—Pool 44049	8.000%	04/01/2008	24,972,513	23,709,814	23,794,060
FnMA—FHA Project—Pool 44064	8.000%	07/01/2008	113,035,710	103,231,901	107,701,555
FnMA—FHA Project—Pool 44598	8.500%	03/01/2010	3,550,843	3,581,913	3,458,734
FnMA—FHA Project—Pool 52795	7.500%	07/01/2017	12,823,257	11,440,749	11,761,234
FnMA—FHA Project—Pool 55166	8.000%	10/01/2017	3,760,481	3,241,065	3,526,617
FnMA—Stripped Mtg Backed Sec.—Pool 8247	6.500%	04/01/2009	6,580,905	6,167,542	5,766,518
FnMA—Stripped Mtg Backed Sec. Series F-1	6.500%	05/01/2009	5,800,755	5,023,092	5,091,961
FnMA—Stripped Mtg Backed Sec. Series H-1	6.500%	05/01/2009	6,087,487	5,271,383	5,345,605
FnMA—Stripped Mtg Backed Sec. Series L-1	5.000%	01/01/2006	12,626,662	10,006,629	10,365,732
FnMA—Stripped Mtg Backed Sec. Class 2—TR1	9.000%	02/01/2017	56,564,678	22,678,900	22,767,282
FnMA—Stripped Mtg Backed Sec. Class 2—TR2	10.000%	02/01/2017	112,124,485	44,695,982	43,868,704
FnMA—Stripped Mtg Backed Sec. Class 2—TR4	9.500%	02/01/2017	7,633,473	3,084,400	3,053,389
FnMA—Stripped Mtg Backed Sec. Class 2—TR6	9.000%	01/01/2017	200,509,828	80,015,953	80,454,568
FnMA—Stripped Mtg Backed Sec. Class 2—TR16	9.500%	04/01/2017	3,365,227	1,356,607	1,329,265
FnMA—Stripped Mtg Backed Sec. Class 2—TR21	9.500%	07/01/2017	14,203,687	5,739,177	5,663,720
FnMA—Stripped Mtg Backed Sec. Class 2—TR-22	10.000%	11/01/2016	39,055,949	15,662,160	15,329,460
FnMA—Stripped Mtg Backed Sec. Class 2—TR-25	4.000%	02/01/2013	105,066,090	16,088,245	15,891,246
FnMA—Stripped Mtg Backed Sec. Class 2—TR-63	9.500%	06/01/2018	121,278,867	48,359,948	46,389,166

NOTE: Cents omitted. Columns will not add.

Name	Coupon	Maturity	Par Value	Book Value	Market Value
Federal Home Loan Mortgage Corporation	8.000%	07/01/2008	$ 3,202,095	$ 3,150,061	$ 3,056,976
Federal Home Loan Mortgage Corporation	8.500%	12/01/2009	2,483,649	2,494,515	2,409,909
Federal Home Loan Mortgage Corporation	8.500%	06/01/2009	1,961,177	1,716,030	1,902,950
Federal Home Loan Mortgage Corporation	7.500%	11/01/2008	4,767,993	3,474,675	4,429,751
Federal Home Loan Mortgage Corporation	8.000%	04/01/2017	211,089,957	185,953,681	197,301,561
Federal Home Loan Mortgage Corporation	8.500%	01/01/2008	4,045,622	3,520,955	3,945,736
Federal Home Loan Mortgage Corporation	8.000%	11/01/2016	2,764,357	2,392,896	2,583,789
Federal Home Loan Mortgage Corporation	7.500%	05/01/2016	17,284,216	14,572,755	15,798,811
Federal Home Loan Mortgage Corporation	7.500%	05/01/2016	1,124,194	963,294	1,027,581
Federal Home Loan Mortgage Corporation	8.250%	04/01/2011	9,902,628	9,300,734	9,419,875
Federal Home Loan Mortgage Corporation	7.500%	06/01/2016	6,068,449	5,336,442	5,546,926
Federal Home Loan Mortgage Corporation	7.500%	07/01/2016	5,041,318	4,502,527	4,608,067
Federal Home Loan Mortgage Corporation	8.500%	06/01/2016	2,405,186	2,292,443	2,297,699
Federal Home Loan Mortgage Corporation	7.500%	07/01/2016	23,963,943	21,168,971	21,904,482
Federal Home Loan Mortgage Corporation	7.500%	06/01/2016	8,025,298	6,424,000	7,335,604
Federal Home Loan Mortgage Corporation	8.000%	07/01/2016	3,643,782	3,389,856	3,405,770
Federal Home Loan Mortgage Corporation	7.500%	08/01/2016	5,605,330	5,006,261	5,123,608
Federal Home Loan Mortgage Corporation	8.500%	08/01/2016	4,120,050	4,085,288	3,935,925
Federal Home Loan Mortgage Corporation	8.000%	08/01/2016	2,352,085	2,128,637	2,198,447
Federal Home Loan Mortgage Corporation	8.000%	08/01/2016	7,336,176	6,565,877	6,856,977
Federal Home Loan Mortgage Corporation	8.000%	09/01/2016	7,103,244	6,423,996	6,639,260
Federal Home Loan Mortgage Corporation	7.500%	09/01/2016	4,875,348	4,354,295	4,456,360
Federal Home Loan Mortgage Corporation	8.000%	09/01/2016	17,517,201	15,738,110	16,372,977
Federal Home Loan Mortgage Corporation	8.000%	09/01/2016	10,061,134	9,140,879	9,403,940
Federal Home Loan Mortgage Corporation	8.000%	09/01/2016	27,441,088	24,139,582	25,648,636
Federal Home Loan Mortgage Corporation	8.000%	09/01/2016	19,456,954	17,584,222	18,186,026
Federal Home Loan Mortgage Corporation	8.000%	09/01/2016	13,970,923	12,696,076	13,058,342
Federal Home Loan Mortgage Corporation	7.500%	10/01/2016	4,548,288	4,036,605	4,157,408
Federal Home Loan Mortgage Corporation	8.000%	10/01/2016	66,444	59,841	62,104
Federal Home Loan Mortgage Corporation	7.500%	11/01/2016	5,125,519	4,491,236	4,685,032
Federal Home Loan Mortgage Corporation	7.500%	11/01/2016	6,079,817	5,259,021	5,557,317
Federal Home Loan Mortgage Corporation	7.500%	12/01/2016	8,542,918	7,457,150	7,808,740
Federal Home Loan Mortgage Corporation	7.500%	12/01/2016	5,916,429	5,460,293	5,407,971
Federal Home Loan Mortgage Corporation	8.000%	12/01/2016	3,329,173	3,043,072	3,111,711
Federal Home Loan Mortgage Corporation	8.000%	12/01/2016	8,121,257	7,423,337	7,590,777
Federal Home Loan Mortgage Corporation	7.500%	12/01/2016	9,388,012	8,642,838	8,581,206
Federal Home Loan Mortgage Corporation	7.500%	11/01/2016	7,271,706	6,374,329	6,646,775
Federal Home Loan Mortgage Corporation	8.000%	01/01/2017	7,944,009	7,154,574	7,425,107
Federal Home Loan Mortgage Corporation	7.500%	01/01/2017	19,731,161	18,165,000	18,035,465
Federal Home Loan Mortgage Corporation	7.500%	12/01/2016	14,632,365	13,470,921	13,374,860
Federal Home Loan Mortgage Corporation	8.000%	01/01/2017	6,436,653	5,797,011	6,016,211
Federal Home Loan Mortgage Corporation	8.000%	12/01/2016	5,163,130	4,669,406	4,825,875
Federal Home Loan Mortgage Corporation	8.000%	01/01/2017	47,412	44,137	44,315
Federal Home Loan Mortgage Corporation	7.500%	01/01/2017	2,603,816	2,480,135	2,380,044
Federal Home Loan Mortgage Corporation	8.500%	01/01/2017	3,310,901	3,282,965	3,162,937
Federal Home Loan Mortgage Corporation	7.500%	02/01/2017	11,420,016	9,926,374	10,438,580
Federal Home Loan Mortgage Corporation	7.500%	01/01/2017	11,039,662	10,518,728	10,090,913
Federal Home Loan Mortgage Corporation	7.500%	01/01/2017	17,046,617	14,436,354	15,581,631
Federal Home Loan Mortgage Corporation	7.500%	01/01/2017	9,105,365	8,684,242	8,322,850
Federal Home Loan Mortgage Corporation	7.500%	02/01/2017	40,203,445	38,381,727	36,748,361
Federal Home Loan Mortgage Corporation	7.500%	03/01/2017	27,587,799	24,329,976	25,216,904
Federal Home Loan Mortgage Corporation	7.500%	02/01/2017	39,099,376	31,358,921	35,739,176
Federal Home Loan Mortgage Corporation	7.500%	02/01/2017	4,415,729	3,918,960	4,036,242
Federal Home Loan Mortgage Corporation	7.500%	02/01/2017	3,651,985	3,069,950	3,338,133

NOTE: *Cents omitted. Columns will not add.*

Name	Coupon	Maturity	Par Value	Book Value	Market Value
Federal Home Loan Mortgage Corporation	7.500%	03/01/2017	$ 4,285,185	$ 3,602,233	$ 3,916,916
Federal Home Loan Mortgage Corporation	7.000%	02/01/2017	22,373,444	18,521,016	19,898,269
Federal Home Loan Mortgage Corporation	7.500%	03/01/2017	7,468,205	6,628,032	6,826,388
Federal Home Loan Mortgage Corporation	7.500%	03/01/2017	3,780,701	3,306,341	3,455,787
Federal Home Loan Mortgage Corporation	7.500%	03/01/2017	7,006,688	6,127,567	6,404,533
Federal Home Loan Mortgage Corporation	7.500%	03/01/2017	7,888,463	6,951,708	7,210,528
Federal Home Loan Mortgage Corporation	7.500%	03/01/2017	10,440,055	9,200,299	9,542,837
Federal Home Loan Mortgage Corporation	7.500%	03/01/2017	2,419,781	2,034,129	2,211,825
Federal Home Loan Mortgage Corporation	7.000%	03/01/2017	4,184,727	3,491,632	3,721,771
Federal Home Loan Mortgage Corporation	7.500%	04/01/2017	3,849,211	3,661,562	3,518,410
Federal Home Loan Mortgage Corporation	7.500%	04/01/2017	3,935,663	3,308,417	3,597,432
Federal Home Loan Mortgage Corporation	7.500%	04/01/2017	10,100,238	8,803,005	9,232,223
Federal Home Loan Mortgage Corporation	7.500%	04/01/2017	16,861,895	15,986,476	15,412,784
Federal Home Loan Mortgage Corporation	7.500%	04/01/2017	11,056,969	9,609,821	10,106,733
Federal Home Loan Mortgage Corporation	7.500%	04/01/2017	3,300,504	2,774,486	3,016,859
Federal Home Loan Mortgage Corporation	8.500%	05/01/2017	3,940,253	3,689,062	3,764,163
Federal Home Loan Mortgage Corporation	7.500%	04/01/2017	3,102,900	2,608,375	2,836,237
Federal Home Loan Mortgage Corporation	7.500%	04/01/2017	9,725,987	8,698,679	8,890,135
Federal Home Loan Mortgage Corporation	7.500%	05/01/2017	6,467,733	6,146,367	5,911,896
Federal Home Loan Mortgage Corporation	7.500%	05/01/2017	3,819,668	3,629,878	3,491,406
Federal Home Loan Mortgage Corporation	8.000%	05/01/2017	4,518,346	4,203,474	4,223,208
Federal Home Loan Mortgage Corporation	7.500%	05/01/2017	4,238,024	3,773,828	3,873,808
Federal Home Loan Mortgage Corporation	7.500%	05/01/2017	8,782,438	7,670,911	8,027,675
Federal Home Loan Mortgage Corporation	7.500%	05/01/2017	4,427,765	3,722,090	4,047,243
Federal Home Loan Mortgage Corporation	7.500%	05/01/2017	12,633,488	10,853,822	11,547,766
Federal Home Loan Mortgage Corporation	7.500%	05/01/2017	4,462,290	3,990,961	4,078,801
Federal Home Loan Mortgage Corporation	7.500%	05/01/2017	4,513,314	3,957,612	4,125,440
Federal Home Loan Mortgage Corporation	7.500%	04/01/2017	4,513,913	4,006,098	4,125,987
Federal Home Loan Mortgage Corporation	7.500%	05/01/2017	17,740,039	15,494,815	16,215,460
Federal Home Loan Mortgage Corporation	7.000%	05/01/2017	5,864,970	4,893,584	5,216,128
Federal Home Loan Mortgage Corporation	7.000%	05/01/2017	6,799,484	5,630,822	6,047,257
Federal Home Loan Mortgage Corporation	7.000%	05/01/2017	5,943,086	4,921,618	5,285,603
Federal Home Loan Mortgage Corporation	7.500%	05/01/2017	3,783,177	3,383,579	3,458,051
Federal Home Loan Mortgage Corporation	7.500%	05/01/2017	3,156,513	2,823,106	2,885,242
Federal Home Loan Mortgage Corporation	7.500%	05/01/2017	1,960,401	1,745,982	1,791,924
Federal Home Loan Mortgage Corporation	7.500%	06/01/2017	8,292,677	7,243,135	7,580,005
Federal Home Loan Mortgage Corporation	7.500%	05/01/2017	11,155,967	9,775,416	10,197,223
Federal Home Loan Mortgage Corporation	7.500%	05/01/2017	4,970,057	4,426,457	4,542,930
Federal Home Loan Mortgage Corporation	7.500%	06/01/2017	8,590,285	7,650,722	7,852,036
Federal Home Loan Mortgage Corporation	7.500%	06/01/2017	2,072,986	1,971,928	1,894,834
Federal Home Loan Mortgage Corporation	7.500%	06/01/2017	3,655,726	3,255,881	3,341,553
Federal Home Loan Mortgage Corporation	7.000%	05/01/2017	6,763,657	5,601,154	6,015,394
Federal Home Loan Mortgage Corporation	7.500%	06/01/2017	8,638,905	7,545,544	7,896,478
Federal Home Loan Mortgage Corporation	7.500%	06/01/2017	9,746,369	8,678,837	8,908,766
Federal Home Loan Mortgage Corporation	7.500%	06/01/2017	8,597,826	7,539,218	7,858,928
Federal Home Loan Mortgage Corporation	7.500%	06/01/2017	13,291,838	11,709,279	12,149,537
Federal Home Loan Mortgage Corporation	7.500%	06/01/2017	8,937,577	7,513,151	8,169,482
Federal Home Loan Mortgage Corporation	7.500%	06/01/2017	26,575,836	23,652,494	24,291,908
Federal Home Loan Mortgage Corporation	7.500%	06/01/2017	28,582,631	25,599,319	26,126,240
Federal Home Loan Mortgage Corporation	8.500%	07/01/2017	103,268	95,684	98,653
Federal Home Loan Mortgage Corporation	7.500%	07/01/2017	5,059,073	4,507,318	4,624,296
Federal Home Loan Mortgage Corporation	7.500%	07/01/2017	38,705,241	34,447,665	35,378,913
Federal Home Loan Mortgage Corporation	7.500%	07/01/2017	18,802,400	16,657,751	17,186,522
Federal Home Loan Mortgage Corporation	7.500%	09/01/2017	13,344,891	11,737,248	12,198,031

NOTE: Cents omitted. Columns will not add.

Name	Coupon	Maturity	Par Value	Book Value	Market Value
Federal Home Loan Mortgage Corporation	8.000%	08/01/2017	$ 12,423,368	$ 11,233,442	$ 11,611,874
Federal Home Loan Mortgage Corporation	7.000%	07/01/2017	27,219,273	22,685,563	24,208,005
Federal Home Loan Mortgage Corporation	7.500%	08/15/2018	15,568,150	14,157,287	14,230,223
Federal Home Loan Mortgage Corporation	8.000%	12/15/2018	83,247,056	75,884,894	77,809,358
Federal Home Loan Mortgage Corporation	8.500%	12/15/2018	30,460,656	28,414,081	29,099,370
GNMA—GNMA II/Various—Pool 587	8.000%	07/20/2016	4,378,530	4,143,184	4,082,979
GNMA—GNMA II/Various—Pool 606	8.000%	08/20/2016	4,323,839	4,091,433	4,031,980
GNMA—Jumbo Mortgage—Pool 729	8.000%	03/20/2017	4,712,421	4,217,617	4,394,332
GNMA—Jumbo Mortgage—Pool 746	8.000%	04/20/2017	6,101,403	5,453,129	5,689,558
GNMA—Jumbo Mortgage—Pool 763	8.000%	09/20/2001	2,954,693	2,640,757	2,995,320
GNMA—Fleet Mortgage Corp.—Pool 149657	8.500%	08/15/2016	3,695,439	3,569,563	3,560,296
GNMA—Sovran Mortgage Corp.—Pool 150462	9.000%	06/15/2016	16,151,124	15,838,196	15,929,046
GNMA—ICM Mortgage Corp.—Pool 152086	8.000%	11/15/2016	4,775,253	4,260,421	4,500,676
GNMA—Lomas & Nettleton—Pool 153574	9.000%	06/15/2016	35,546,463	34,687,307	35,057,699
GNMA—New South Federal Savings—Pool 155466	9.000%	05/15/2016	9,098,200	8,757,018	8,973,100
GNMA—Carteret Savings Bank—Pool 156621	9.000%	05/15/2016	16,523,065	14,881,366	16,295,897
GNMA—Sears Mortgage Corp.—Pool 157965	8.500%	07/15/2016	1,950,272	1,883,841	1,878,951
GNMA—ARCS Mortgage—Pool 158693	9.000%	08/15/2016	8,477,325	8,334,270	8,360,762
GNMA—Union Federal Savings & Loan—Pool 159858	9.000%	08/15/2016	10,604,521	10,644,288	10,458,708
GNMA—Union Federal Savings & Loan—Pool 159872	9.000%	05/15/2016	13,232,670	12,976,287	13,050,721
GNMA—City Federal Savings & Loan—Pool 161368	9.000%	06/15/2016	8,865,592	8,898,838	8,743,690
GNMA—Bankers Life Company—Pool 161704	9.000%	08/15/2016	4,824,111	4,709,539	4,757,780
GNMA—Shawmut—Pool 161785	9.000%	07/15/2016	8,378,818	8,069,849	8,263,609
GNMA—Cowger & Miller Mtg.—Pool 163070	8.500%	02/15/2017	1,628,551	1,648,399	1,568,995
GNMA—City Federal Kissell—Pool 163307	9.000%	07/15/2016	9,055,252	8,721,339	8,930,742
GNMA—GMAC Mortgage Corp.—Pool 163660	8.500%	07/15/2016	3,317,317	3,204,320	3,196,002
GNMA—Alliance Mortgage Co.—Pool 164677	9.000%	06/15/2016	11,071,125	10,738,992	10,918,897
GNMA—Alliance Mortgage Co.—Pool 164678	9.000%	06/15/2016	21,795,010	19,629,130	21,495,328
GNMA—Alliance Mortgage Co.—Pool 164680	9.000%	08/15/2016	22,712,329	22,740,719	22,400,034
GNMA—Mortgage Corporation—Pool 164761	9.000%	07/15/2016	11,495,392	11,243,930	11,337,331
GNMA—Southeast Mortgage Co.—Pool 164806	9.000%	06/15/2016	7,702,974	7,204,688	7,597,058
GNMA—Union Federal Savings & Loan—Pool 165610	9.000%	08/15/2016	17,987,293	17,599,442	17,739,968
GNMA—First Tier Mortgage—Pool 165912	9.000%	07/15/2016	907,451	891,003	894,974
GNMA—Fleet Mortgage Corp.—Pool 166132	9.000%	07/15/2016	9,462,107	9,290,606	9,332,003
GNMA—Collateral Investment Co.—Pool 166212	9.000%	06/15/2016	9,155,988	8,875,585	9,030,093
GNMA—Collateral Investment Company—Pool 166213	9.000%	06/15/2016	9,154,946	8,874,576	9,029,066
GNMA—City Federal Savings—Pool 167142	9.000%	07/15/2016	10,556,688	9,972,771	10,411,533
GNMA—Fleet Mortgage Corp.—Pool 169643	9.000%	10/15/2016	27,437,782	27,240,573	27,060,512
GNMA—Commonwealth Mortgage—Pool 171185	9.000%	11/15/2016	8,725,322	9,004,805	8,605,349
GNMA—City Federal Savings & Loan—Pool 174691	9.000%	11/15/2016	13,522,597	13,585,984	13,336,661
GNMA—Union Federal Savings—Pool 174898	8.000%	04/15/2017	23,934,959	22,102,439	22,558,699
GNMA—Cowell Company—Pool 175983	9.000%	09/15/2016	12,773,552	12,589,932	12,597,915
GNMA—Imperial Mortgage—Pool 178504	9.000%	01/15/2017	22,410,696	23,125,036	22,102,549
GNMA—First Federal Savings & Loan—Pool 181407	8.500%	02/15/2017	2,873,792	2,908,816	2,768,697
GNMA—Mortgage Entrust Inc.—Pool 182205	8.000%	02/20/2017	1,483,511	1,327,742	1,383,374
GNMA—Fireman's Fund Mortgage Corp.—Pool 182615	8.000%	06/15/2017	48,085,882	41,173,536	45,320,944
GNMA—Fireman's Fund Mortgage Corp.—Pool 182620	8.000%	04/15/2017	4,615,401	4,263,477	4,350,016
GNMA—Fireman's Fund Mortgage Corp.—Pool 182621	8.500%	06/15/2017	27,991,017	25,913,558	26,967,385
GNMA—Goldome Realty Credit Corp.—Pool 183022	9.000%	10/15/2016	8,596,897	8,872,267	8,478,690
GNMA—Mason McDuffie—Pool 183738	8.500%	01/15/2017	17,869,713	18,087,500	17,216,218
GNMA—Weyerhaeuser Mortgage—Pool 184034	8.500%	07/15/2017	6,175,116	5,710,052	5,949,292
GNMA—S & L Mortgage Services—Pool 184585	8.500%	02/15/2017	5,102,533	4,515,742	4,915,934
GNMA—Delson Financial—Pool 184660	8.000%	04/15/2017	4,262,520	3,612,153	4,017,425
GNMA—Delson Financial—Pool 184661	8.000%	04/15/2017	4,716,472	4,373,053	4,445,274

NOTE: Cents omitted. Columns will not add.

Name	Coupon	Maturity	Par Value	Book Value	Market Value
GNMA—Sovran Mortgage Corp.—Pool 185832	9.000%	01/15/2017	$ 38,806,112	$ 38,078,498	$ 38,272,528
GNMA—Seafirst Mortgage Corp.—Pool 187852	9.000%	11/15/2016	4,475,973	4,291,339	4,414,429
GNMA—Stockton Whatley Davin & Company—Pool 190298	9.000%	11/15/2016	5,276,069	5,445,893	5,203,524
GNMA—Stockton Whatley Davin & Company—Pool 190332	8.500%	05/15/2017	7,674,295	7,245,014	7,393,646
GNMA—Banc Boston Mortgage Co.—Pool 190334	8.000%	05/15/2017	2,846,336	2,481,649	2,682,672
GNMA—Union Federal Savings—Pool 190852	8.000%	04/15/2017	14,034,965	12,969,184	13,227,954
GNMA—ICM Mortgage Corp.—Pool 191647	8.000%	05/15/2017	3,492,406	3,158,444	3,291,592
GNMA—ICM Mortgage Corp.—Pool 191673	8.000%	04/15/2017	6,045,201	5,317,887	5,697,601
GNMA—Fleet Mortgage Corp.—Pool 192771	9.000%	12/15/2016	15,319,679	15,762,510	15,109,033
GNMA—Fleet Real Estate Funding—Pool 193318	8.500%	05/15/2017	5,766,575	5,352,102	5,555,691
GNMA—Fleet Mortgage Corp.—Pool 193319	8.500%	06/15/2017	4,915,702	4,619,223	4,735,935
GNMA—Fleet Real Estate Funding Corp.—Pool 193330	8.500%	06/15/2017	9,431,666	8,718,396	9,086,750
GNMA—Ameristar Financial Corp.—Pool 194423	8.000%	05/15/2017	6,466,171	5,637,692	6,094,366
GNMA—Mortgage Corp. of the South—Pool 194933	8.500%	06/15/2017	6,766,220	6,387,734	6,518,779
GNMA—Mortgage Corp. of the South—Pool 194944	8.500%	05/15/2017	1,943,655	1,782,089	1,872,575
GNMA—Directors Mortgage Loan Corp.—Pool 195606	8.500%	01/15/2017	4,481,680	4,540,502	4,317,785
GNMA—Standard Federal Savings & Loan—Pool 197107	8.000%	02/15/2017	4,624,195	3,881,434	4,358,304
GNMA—Weyerhaeuser Mortgage—Pool 197508	8.000%	05/15/2017	16,982,508	14,328,991	16,006,014
GNMA—Carteret Savings Bank—Pool 198571	8.500%	01/15/2017	6,194,470	6,269,965	5,967,938
GNMA—Comfed Savings Bank—Pool 198672	8.000%	03/20/2017	3,974,927	3,557,559	3,706,619
GNMA—Western Mortgage Loan Corp.—Pool 199147	8.000%	04/15/2017	4,208,940	3,781,469	3,966,925
GNMA—Metmor Financial Corp.—Pool 199425	8.500%	02/15/2017	10,644,903	10,784,617	10,255,619
GNMA—First Union Mortgage—Pool 200071	8.500%	04/15/2017	21,050,703	21,287,524	20,280,879
GNMA—New York Guardian Mortgage Corp.—Pool 200720	8.000%	05/15/2017	11,557,073	10,546,630	10,892,541
GNMA—GMAC Mortgage Corp. of Iowa—Pool 200919	8.000%	05/15/2017	4,708,748	4,220,215	4,437,995
GNMA—Fleet Mortgage Corp.—Pool 201209	8.500%	04/15/2017	19,282,123	17,851,028	18,576,976
GNMA—Fleet Mortgage Corp.—Pool 201211	8.000%	03/15/2017	14,096,701	13,026,233	13,286,141
GNMA—Fleet Mortgage Corp.—Pool 201215	8.000%	06/15/2017	25,571,774	21,670,080	24,101,397
GNMA—Collateral Mortgage Ltd.—Pool 201308	8.000%	04/15/2017	4,779,701	4,204,643	4,504,868
GNMA—Collateral Mortgage Ltd.—Pool 201309	8.000%	04/15/2017	4,760,447	4,187,706	4,486,721
GNMA—Weaver Brothers, Inc.—Pool 201719	8.000%	02/15/2017	4,465,312	3,928,079	4,208,556
GNMA—Empire of America Realty—Pool 203005	8.500%	04/15/2017	6,565,994	6,078,674	6,325,875
GNMA—Empire Funding—Pool 203016	8.000%	05/15/2017	14,292,101	12,925,418	13,470,305
GNMA—Empire of America Realty—Pool 203058	8.500%	07/15/2017	4,642,510	4,291,420	4,472,733
GNMA—Meritor Mortgage—Pool 203179	9.000%	12/15/2016	2,638,804	2,739,409	2,602,521
GNMA—Meritor Mortgage Corp.—Pool 203184	9.000%	01/15/2017	3,410,457	3,189,843	3,363,563
GNMA—Shawmut—Pool 203900	8.500%	06/15/2017	4,475,625	4,205,689	4,311,952
GNMA—Fleet Real Estate Funding Corp.—Pool 204291	8.500%	07/15/2017	6,076,728	5,377,904	5,854,502
GNMA—Fleet Real Estate Funding Corp.—Pool 204307	8.500%	04/15/2017	5,509,947	5,101,006	5,308,449
GNMA—Fleet Real Estate Funding Corp.—Pool 204313	8.000%	04/15/2017	4,815,827	4,316,185	4,538,917
GNMA—Numerica—Pool 204616	8.500%	04/15/2017	1,800,949	1,700,208	1,735,088
GNMA—Ryan Financial Service Inc.—Pool 204969	8.000%	04/20/2017	2,385,036	2,134,608	2,224,046
GNMA—Ryan Financial Service Inc.—Pool 205235	8.000%	03/20/2017	3,752,018	3,358,056	3,498,757
GNMA—Lomas & Nettleton—Pool 206100	8.500%	04/15/2017	7,474,294	6,919,562	7,200,959
GNMA—First Wachovia Mortgage Co.—Pool 206141	8.000%	05/15/2017	3,738,909	3,359,176	3,523,921
GNMA—Fleet Mortgage Corp.—Pool 206246	8.500%	02/15/2017	7,136,429	7,252,396	6,875,450
GNMA—Collateral Mortgage Ltd.—Pool 206546	8.000%	05/15/2017	3,805,998	3,419,451	3,587,153
GNMA—New York Guardian Mortgage Corp.—Pool 208528	8.500%	04/15/2017	4,640,316	4,692,520	4,470,620
GNMA—New York Guardian Mortgage Corp.—Pool 208531	8.500%	06/15/2017	7,662,411	7,145,198	7,382,196
GNMA—New York Guardian Mortgage Corp.—Pool 208540	8.000%	04/15/2017	5,703,456	5,361,248	5,375,507
GNMA—New York Guardian Mortgage—Pool 208546	8.500%	05/15/2017	4,713,828	4,363,973	4,541,443
GNMA—Ryan Financial Services—Pool 208592	8.000%	03/15/2017	9,619,763	8,462,385	9,066,626
GNMA—Lincoln Service Corp.—Pool 208722	8.500%	05/15/2017	3,525,152	3,327,964	3,396,237
GNMA—Lincoln Service Corp.—Pool 208728	8.000%	05/15/2017	60,835,940	56,178,189	57,337,874

NOTE: Cents omitted. Columns will not add.

Name	Coupon	Maturity	Par Value	Book Value	Market Value
GNMA–1st Nationwide Bank–Pool 208895	8.000%	03/15/2017	$ 4,707,916	$ 4,425,441	$ 4,437,211
GNMA–First Southern Federal Savings & Loan–Pool 209018	8.000%	05/15/2017	4,743,999	4,251,809	4,471,219
GNMA–GMAC Mortgage Corporation–Pool 210216	8.000%	04/15/2017	5,564,615	4,715,577	5,244,650
GNMA–Shearson Lehman Hutton–Pool 210463	8.000%	05/15/2017	5,656,488	5,225,180	5,331,240
GNMA–Citicorp Mortgage Inc.–Pool 211027	8.000%	06/15/2017	3,869,619	3,373,824	3,647,115
GNMA–Citicorp Homeowners Services–Pool 211037	8.000%	07/15/2017	4,647,673	4,088,500	4,380,432
GNMA–Mortgage & Trust Corp.–Pool 211634	8.000%	06/15/2017	4,687,133	4,345,851	4,417,623
GNMA–Fleet Mortgage Corp.–Pool 212179	8.000%	04/15/2017	9,274,132	8,387,293	8,740,870
GNMA–Fleet Mortgage Corp.–Pool 212181	8.000%	05/15/2017	45,030,096	41,610,623	42,440,865
GNMA–Duval Fed. Savings & Loan Assoc.–Pool 212593	8.000%	04/15/2017	8,646,526	7,538,690	8,149,351
GNMA–Colwell Financial Corp.–Pool 212659	8.500%	04/15/2017	4,721,016	4,370,628	4,548,369
GNMA–Metmor Financial Inc.–Pool 213267	8.500%	04/15/2017	8,759,344	8,031,223	8,439,014
GNMA–REFCO Mortgage Securities–Pool 213313	8.500%	02/15/2017	4,892,167	4,522,197	4,713,261
GNMA–GMAC Mortgage Corp.–Pool 213771	9.000%	01/15/2017	13,408,828	12,889,235	13,224,456
GNMA–Fireman's Fund Mortgage Corp.–Pool 213864	8.000%	05/15/2017	34,089,521	32,299,821	32,129,373
GNMA–Ameristar Financial Corp.–Pool 216661	8.000%	04/15/2017	3,762,338	3,280,288	3,546,003
GNMA–Metmor Financial Inc.–Pool 216746	8.500%	04/15/2017	4,823,821	4,422,841	4,647,414
GNMA–Metmor Financial Inc.–Pool 216756	8.000%	04/15/2017	8,717,452	7,387,359	8,216,198
GNMA–Metmor Financial Inc.–Pool 216758	8.000%	04/15/2017	4,786,273	4,328,272	4,509,177
GNMA–Goldome Realty Credit Corp.–Pool 218131	8.500%	05/15/2017	4,505,324	4,164,609	4,340,565
GNMA–New York Guardian Mtg.–Pool 219151	8.000%	05/15/2017	15,100,185	13,951,435	14,231,924
GNMA–Dominion Bank Shares–Pool 220268	8.000%	05/15/2017	3,678,855	3,398,342	3,467,321
GNMA–Standard Federal Savings Bank–Pool 222008	8.000%	04/15/2017	9,665,933	8,623,825	9,110,142
GNMA–Numerica–Pool 225440	8.000%	07/15/2017	4,675,850	4,199,132	4,406,988
GNMA–Metmor Financial Inc.–Pool 225610	8.500%	06/15/2017	6,229,877	5,782,104	6,002,050
GNMA–Sears Mortgage Corp.–Pool 225885	8.000%	06/15/2017	7,370,982	6,622,366	6,947,150
GNMA–Union Federal Savings–Pool 225966	8.000%	07/15/2017	6,566,083	6,065,419	6,188,533
GNMA–Chemical Mortgage Co.–Pool 226890	8.000%	06/15/2017	3,840,618	3,450,555	3,619,783
GNMA–National Mortgage Co.–Pool 228869	8.500%	04/15/2017	74,650,847	69,005,377	71,920,865
GNMA–Collateral Mortgage Ltd.–Pool 229269	8.000%	07/15/2017	9,563,726	8,413,090	9,013,812
GNMA–Weyerhaeuser Mortgage–Pool 229579	9.000%	10/15/2017	7,691,360	7,193,826	7,585,604
GNMA–Travelers–Pool 229855	8.000%	07/15/2017	4,763,218	4,277,593	4,489,333
GNMA–Duval Federal Savings & Loan–Pool 231922	8.000%	07/15/2017	7,407,702	6,289,602	6,981,759
GNMA–Fleet Real Estate Funding Inc.–Pool 236938	9.000%	05/15/2018	5,343,249	5,047,701	5,269,779
GMAC 1985-A Grantor Trust	8.450%	12/15/1990	1,391,790	1,383,961	1,381,351
Northeast Mortgage FHA Project–Pool 1985-1	8.545%	08/01/2016	21,994	17,650	21,994
Sears Mortgage Securities Corp.–Series 1985-A	11.875%	04/25/2015	42,029	41,504	42,029
U.S.G.I. FHA Project–Pool 117	7.430%	07/01/2022	9,463	7,726	9,463
Total			**$ 4,690,424,355**	**$ 3,912,786,505**	**$ 4,028,940,322**

COMMON STOCK

Name	Shares	Cost	Market Value
Allegheny Power System Inc.	1,184,000	$ 44,343,425	$ 49,580,000
American Cyanamid Co.	2,000,000	91,050,471	107,250,000
American International Group	2,200,000	132,968,617	227,700,000
ARKLA Inc.	1,000,000	19,672,633	27,250,000
Atlantic Energy Inc.	456,100	15,156,957	17,556,000
Atlantic Richfield Company	585,500	13,369,634	65,210,062
Automatic Data Processing Inc.	412,600	5,857,100	20,217,400
Avnet Inc.	1,000,000	24,253,743	31,000,000
Baxter International Inc.	1,175,200	27,152,218	29,380,000
Borden Incorporated	1,200,000	11,003,802	41,250,000
Briggs & Stratton Corporation	28,500	729,646	758,812

NOTE: Cents omitted. Columns will not add.

Name	Shares	Cost	Market Value
Bristol-Myers Squibb Company	1,260,000	$ 34,646,668	$ 70,560,000
Bruno's, Inc.	1,910,000	20,492,017	28,172,500
Capital Cities/ABC Inc.	60,000	20,388,772	33,847,500
Cardinal Distribution, Inc.	206,250	4,500,000	5,053,125
Central Illinois	877,000	19,074,530	20,061,375
Chevron Corporation	2,600,000	128,820,707	176,150,000
Chubb Corporation	1,000,000	60,020,265	95,250,000
Consolidated Edison Co. of NY	1,223,000	27,553,999	35,619,875
Cooper Industries	1,330,000	36,122,532	53,200,000
Corning Incorporated	480,000	12,089,062	20,640,000
Crane Co.	31,050	575,308	721,912
Delmarva Power & Light Company	1,087,000	18,955,144	22,691,125
Dominion Resources Inc.	1,228,000	52,158,529	58,330,000
Dow Chemical Company	1,206,450	61,502,663	86,110,368
Eastman Kodak Co.	3,350,000	131,415,008	137,768,750
Florida Progress Corporation	1,150,000	39,663,106	46,000,000
FPL Group Incorporated	1,500,000	45,588,518	54,562,500
General Electric Co.	3,790,000	114,009,152	244,455,000
General Re Corp.	29,000	2,505,155	2,526,625
Harris Corporation	1,000,000	35,903,919	33,125,000
Hewlett Packard Company	1,000,000	61,604,943	47,250,000
Humana Incorporated	86,800	2,951,426	3,819,200
Idaho Power Company	882,000	19,896,403	25,908,750
International Business Machine	500,000	57,845,707	47,062,500
International Flavors & Fragrances	666,700	30,779,503	45,168,925
International Paper Company	2,100,000	80,791,666	118,650,000
Ipalco Enterprises Inc.	843,000	19,062,260	22,234,125
K-Mart Corporation	1,500,000	59,652,567	52,500,000
Kansas Power & Light Company	963,000	21,923,833	23,834,250
Kentucky Utilities Company	900,000	16,606,401	18,787,500
Keystone International, Inc.	575,000	9,631,979	12,218,750
Kimberly Clark Corp.	2,000,000	86,316,360	147,000,000
Louisville Gas & Electric	542,000	18,810,665	22,357,500
Merck & Company, Inc.	1,131,000	79,074,433	87,652,500
Minnesota Mining & Manufacturing	492,600	33,624,266	39,223,275
Minnesota Power & Light Co.	2,500	57,962	68,125
Mobil Corporation	2,250,000	79,501,899	140,906,250
Motorola Inc.	1,450,000	71,389,921	84,643,750
Pacificorp	1,742,300	60,273,420	79,710,225
Pall Corporation	1,086,400	31,310,847	37,209,200
Pepsico, Inc.	3,000,000	48,127,834	192,000,000
Perkin-Elmer Corp.	704,700	15,673,138	15,943,837
Pitney Bowes, Incorporated	800,000	11,480,796	38,000,000
Public Service Enterprise	2,581,000	63,067,188	76,139,500
Raytheon Company	1,500,000	101,913,229	104,250,000
Scana Corporation	992,000	30,261,563	35,464,000
SCE Corporation	1,932,000	62,709,810	76,072,500
Schering-Plough Corporation	1,183,000	79,045,242	101,146,500
Sears Roebuck & Co.	906,200	39,665,270	34,548,875
Southwestern Public Service	865,000	23,070,097	26,058,125
Sundstrand Corporation	320,800	16,935,193	20,811,900
Torchmark Corporation	1,480,000	10,759,474	82,510,000
Tucson Electric Power Company	755,000	33,202,831	13,590,000

NOTE: Cents omitted. Columns will not add.

Name	Shares	Cost	Market Value
Varian Associates, Inc.	800,000	$ 21,111,331	$ 17,300,000
Walgreen Company	758,200	11,604,170	35,445,850
Warner-Lambert Company	1,165,000	42,165,423	134,557,500
Westinghouse Electric	2,746,500	155,673,454	203,241,000
Total	**79,762,250**	**$ 2,859,115,836**	**$ 4,105,282,344**

REAL ESTATE

Name	Book Value	Market Value
Bristol Group	$ 20,502,500	$ 20,928,785
Cigna IN-15641	94,091,158	94,735,385
NCNB	99,270,113	130,842,999
Rothschild Property Investors	20,900,000	18,440,764
Rothschild Realty	17,200,000	17,361,703
Trinet Trust	253,530,000	256,799,346
Trsis Trust	3,700,000	3,700,000
Wells Fargo	220,948,591	242,739,022
Total	**$730,142,364**	**$ 785,548,004**

VENTURE CAPITAL

Name	Cost	Market Value
Cardinal Development Fund I, Inc.	$ 2,910,222	$ 2,910,222
Micro Industries Corporation	3,000,000	4,000,000
Primus Capital Fund	3,671,082	3,671,082
Primus Capital Fund II	6,826,217	6,826,217
Total	**$ 16,407,521**	**$ 17,407,521**

NOTE: Cents omitted. Columns will not add.

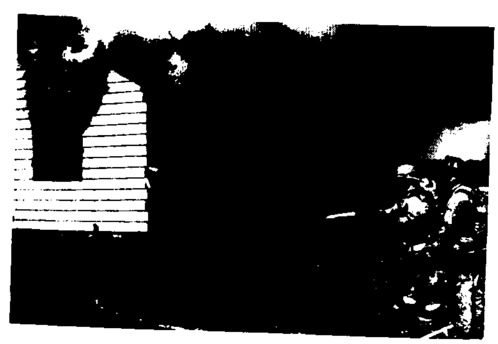
Public Employees Retirement System of Ohio

The Comprehensive
Annual Financial Report

For the Year Ended December 31, 1989

PLAN STATEMENT

PERS



SECURING THE FUTURE

Plan Statement
Retirement Security for Ohio Public Employees

The Public Employees Retirement System of Ohio (PERS) was created by the Ohio General Assembly to provide retirement, disability retirement, and survivor benefit programs for the public employees of Ohio who are not covered by another state or local retirement system.

All public employees in Ohio, except those covered by another state retirement system in Ohio or the Cincinnati Retirement System, are required to become contributing members of PERS when they begin public employment.

The law provides for optional membership for elected public officials. Any new employee who is not a member at the time of employment and is a temporary or emergency employee whose employment will not exceed three calendar months, a student whose employment will not exceed 1,500 hours in any calendar year, or one whose employment will not exceed 20 hours per week may apply for exemption from PERS in writing.

The following individuals are excluded from membership:

1. persons receiving a disability benefit or a service retirement allowance from any other Ohio public retirement system, unless membership in PERS and the other system was established prior to Aug. 20, 1976;
2. persons actively contributing to the Police and Firemen's Disability and Pension Fund, the State Highway Patrol Retirement System, or the Cincinnati Retirement System;
3. inmates of state correctional and penal institutions;
4. patients in hospitals operated by the Departments of Mental Health or Mental Retardation;
5. patients in the Ohio Veterans' Home and residents of county homes;
6. elected officials of public employers which are not covered by PERS;
7. employees of temporary help services who perform services for public employers;
8. employees of private contractors except public employees transferred with previously publicly-operated functions and performing the same duties as before;
9. individuals performing services under a personal service contract as an independent contractor; and
10. new, summer only, employees not members of PERS who are contributing to the State Teachers Retirement System or School Employees Retirement System on a full-time basis for the current school year.

PERS provides special retirement coverage for certain law enforcement officers. Full-time sheriffs and deputy sheriffs employed after Jan. 1, 1975 and full-time township constables or police officers employed after Jan. 1, 1981 are included if their primary duties are to preserve the peace, to protect life and property, and to enforce the laws of Ohio. Full-time county narcotics agents employed after Sept. 26, 1984 also are included. The following groups are eligible for the law enforcement provisions if the individuals were employed on or after Dec. 15, 1988: 1) full-time undercover drug agents as defined in Section 109.79; 2) full-time liquor control investigators with the Ohio Department of Liquor Control engaged in the enforcement of Chapter 4301; 3) full-time park officers, forest officers, game protectors, or state watercraft officers with the Ohio Department of Natural Resources; 4) full-time park district police officers under Section 511.232 or 1545.13; 5) full-time conservancy district officers under Section 6101.75; 6) full-time municipal corporation police officers not covered by the Police and Firemen's Disability and Pension Fund; 7) police employed by the Ohio Veterans' Home under Section 6907.02; 8) special police employed by a state mental health institution under Section 5119.14; and 9) special police employed by a state institution for the mentally retarded and developmentally disabled under Section 5123.13. In order to enroll in the law enforcement division, the member must have a Peace Officer's Training School Certificate.

Law enforcement officers employed before the dates indicated above are under this special retirement option only if they elected this coverage as provided by the enabling legislation; otherwise, they remain under the regular PERS schedule of benefits.

Law enforcement personnel covered under the law enforcement division may retire with 25 years of law enforcement service credit at age 52, or at a reduced rate as early as age 48. State law also permits retirement at age 62 for any officer with at least 15 years of service credit. The maximum benefit limit is 90 percent of final average salary.

Contributions

Employers are required to make contributions to the System on the basis of a percentage of reportable payroll and at a rate based upon the recommendation of PERS' actuary. Penalties and interest are added for late payments. The contribution rate for state employers is 13.71 percent; for local employers, 13.95 percent; and for employers in the law enforcement division, 18.10 percent.

The current contribution rate for *members* is 8.5 percent of earnable salary. Members in the law enforcement division pay 9.5 percent. Individual accounts for each member of PERS are maintained and funds contributed by the member are fully refundable at service termination or death. In the first quarter of the year members are sent a statement of the balance in their individual account as of the previous December 31. A report disclosing the financial status of the System and describing major developments during the year at PERS is sent along with the statement of savings.

BENEFITS

Age and Service Retirement

Members are eligible to retire at age 60 with at least five years of total service credit. They may retire with a reduced benefit as early as age 55 with 25 years of service. With 30 years of credit, there is no age requirement nor benefit reduction because of age.

Service credit allowed under Chapter 145 of the Ohio Revised Code includes:

1. service performed for the state of Ohio or an Ohio political subdivision on which contributions have been paid;
2. certain military service which interrupted contributing public service;
3. prior service before 1935;
4. any out-of-public service period of three years or less during which the member was receiving an award under Ohio's Workers' Compensation;
5. previously unreported service in Ohio after 1935;
6. service purchased by the member for:
   a. other military service that is not being used for other retirement programs, except Social Security;
   b. prisoner-of-war service;
   c. an authorized leave of absence, which did not exceed one year;
   d. comparable public service that is not being used for other retirement programs, except Social Security, performed outside Ohio or with the federal government or for which contributions were made to an Ohio municipal retirement system;
   e. service restored by redeposit which had been cancelled by an earlier refund of PERS contributions;
   f. service in an Ohio police or fire department which was covered by the Police and Firemen's Disability and Pension Fund or in the State Highway Patrol which was covered by the Highway Patrol Retirement System that is not being used for other retirement benefits;
   g. up to 35 percent additional credit on completed terms of full-time contributing elective service or board, commission, or other public body service by members who are appointed by the governor with the advice and consent of the Senate;
7. service purchased by an employer under a retirement incentive plan.

When a member files an application for age and service retirement a choice of several plans of payment is available. A Straight Life Annuity pays the highest amount but stops at the retirant's death. Alternative plans provide a lesser benefit amount during a retirant's life but the benefit continues to a designated beneficiary after the retirant's death. A return of employee contributions is guaranteed.

Benefit payments vary in amount depending on length of public service, final average salary, age, and plan of payment selection. Final average salary is determined by taking the average of the three highest years of earnable salary. In no case can the age and service benefit exceed 100 percent of final average salary.

Disability Retirement

Before reaching age 60, a member who has at least five years of service credit and becomes permanently disabled for the performance of duty may apply to the Retirement Board for monthly disability benefits. A member covered under the law enforcement division does not need five years of contributing credit to apply for disability if the disabling condition is the result of an on-duty illness or injury that occurred during or resulted from performance of duty.

The member may be required to have a yearly medical examination. The Board will select the physician and pay for the examination which will determine medical eligibility.

The benefit is calculated similar to the age and service formula. There is no reduction for age and the amount of the allowance is based on final average salary and years of PERS service, plus the length of time between the effective date of disability retirement and age 60. Payments cannot be less than 30 percent nor more than 75 percent of final average salary.

Survivor Benefits

A refund of a member's accumulated contributions is available to a qualified beneficiary who is designated by the member or by law.

A member's beneficiary is determined by statutory automatic succession unless a specific designation of beneficiary is made in writing on a form provided by PERS. Under Ohio law, the order of automatic succession is:

1. Spouse.
2. If no spouse, the youngest dependent child under age 18 (or under age 22 if a qualified student attending an accredited school). If monthly benefits are selected, payments will be determined on the basis of all the minor children and divided equally among them. Incompetent, dependent children, regardless of age, are included.
3. If monthly survivor benefits are not payable or there are no dependent children, all living children will share equally in a refund of the account.
4. The older parent.
5. If none of the foregoing, a refund of the account will be paid to the estate.

A qualified dependent(s) may be eligible for monthly survivor benefits if the deceased member: 1) had at least 18 full months of Ohio credit with three of those months within the two and one-half years immediately before death, or 2) was eligible for age and service retirement but did not retire and continued to work, or 3) was receiving a disability benefit at the time of death.

The dependents qualify for available monthly benefits as follows:

1. A surviving spouse age 62 or older (age 50 if the deceased member had 10 or more years of service credit).
2. A spouse with dependent child(ren) under 18 (or 22 if qualified students).
3. Dependent child(ren) under age 18 (or 22 if qualified students).
4. Dependent parent(s) age 65 or older.
5. An incompetent spouse, incompetent child(ren), or incompetent dependent parent(s), at any age.

Monthly benefits are calculated as a percentage which cannot exceed 60 percent of the member's final average salary.

e member dies after reaching retirement age but
re applying for benefits, the surviving spouse, or other
ependent beneficiary, regardless of age, may elect to
a monthly joint survivorship allowance for life, known
ption 1.

a surviving spouse remarries before reaching age 62, nts to benefits, other than the joint survivorship wance, cease. The benefit will be resumed if the marriage ends in divorce, annulment, dissolution, or ath within two years after the survivor benefit ceased.

Benefits for dependent children terminate upon marriage, ption, or active military service. Also, survivor benefits e stopped after a dependent child reaches age 18 ess proof is submitted that the child is attending an itution of learning or training and pursuing a program study equivalent to at least two-thirds of the full-time rriculum requirements of the institution. Payments to a ependent parent stop in the event of remarriage.

dditional Benefits

Health Care Coverage—When applying for age and ervice retirement a member must have 10 years of Ohio service credit to qualify for the PERS health care plan. These 10 years may not include out-of-state ervice (under Section 145.293, Ohio Revised Code) and or military service (under Section 145.301, Ohio Revised Code) purchased after Jan. 1, 1981 or service granted under a retirement incentive plan. Health care coverage for disability recipients and primary survivor recipients is available. Dependents of eligible recipients may be covered through premium deductions.

2. *Medicare Part B Premium Reimbursement*—Recipients who are eligible for health care must enroll in Medicare Part B (medical) when they become eligible for Medicare Part B even if they are covered by health care through their current employer. Proof of enrollment must be submitted and PERS will then reimburse the member for the basic cost of the Medicare B premium as long as the recipient is enrolled in Medicare B. The amount is added to the monthly benefit.

3. *Cost-of-Living Adjustment*—Once a benefit recipient has received benefits for 12 months, an annual 3 percent cost-of-living adjustment may be provided in each year the Consumer Price Index shows an increase of 3 percent or more.

4. *Death Benefit*—Upon the death of a former member receiving an age and service retirement benefit or a disability benefit, a one-time lump sum payment is payable to the qualified beneficiary, the person responsible for burial, or the estate of the recipient. The amount payable is based on the amount of service credit at retirement.

Refunds

Full recovery of contributions to PERS is guaranteed. Upon leaving all public employment in Ohio a member may apply for and receive his/her accumulated savings. Employer contributions are not refundable.

Before a refund may be issued, the law requires that three months must elapse from the date certified by the employer that the member has terminated public employment. If a member is also a member of State Teachers Retirement System or School Employees Retirement System, an application for refund from the other system(s) must have been filed in order to receive the money from PERS.

If a refund is taken and the individual later returns to covered public employment for at least 18 months, the amount refunded, plus interest, may be redeposited and service credit restored.

PERS

PUBLIC EMPLOYEES RETIREMENT
SYSTEM OF OHIO
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