THE COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Year Ended
December 31, 1991

Public Employees
Retirement System
of Ohio

Public Employees Retirement System of Ohio

THE COMPREHENSIVE ANNUAL FINANCIAL REPOR

For the Year Ended December 31, 1991

Richard E. Schumacher, Executive Director
Mark Snodgrass, Assistant Director - Controller

277 East Town Street, Columbus, Ohio 43215 - 4642

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, 1990

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

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

President

Executive Director

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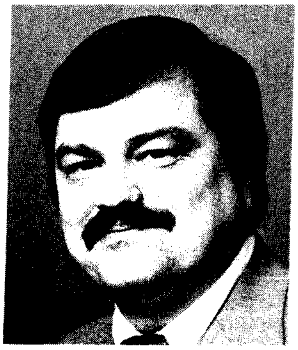
The Retirement Board

ELECTED MEMBERS

Charlie R. Adkins
Representing College and University Employees

John M. Hurley
Representing Municipal Employees

John W. Maurer
Representing State Employees



W. Emerson "Dusty" Rhodes
Representing Miscellaneous Employees

Barbara J. Thomas
Representing County Employees

William G. Wilcox
Representing Retirants

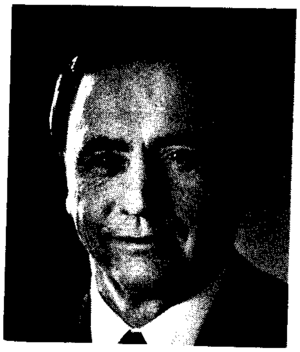


STATUTORY MEMBERS

Thomas E. Ferguson
State Auditor

Lee Fisher
Attorney General

Stephen A. Perry
Director of Administrative Services



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
Richard E. Schumacher

Assistant Director
Investments
Robert A. McLaughlin

Assistant Director
Benefits Administration
Danny L. Drake

Assistant Director
Legal and Legislation
Toba Jeanne Feldman

Assistant Director
Controller
Mark Snodgrass

Assistant Director
Data Information Systems
Blake W. Sherry

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 our 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, 1991. 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' 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 coverage 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. Additional information on benefits is disclosed in 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.

Major Initiatives

PERS exists for the purpose of providing quality retirement benefits to Ohio's public employees. Prudent management and wise investments have allowed the system to absorb two decades of substantial benefit increases while constantly maintaining a sound level of funding. This will continue to be our focus.

A major concern over the past few years has been the rapidly escalating cost of providing health care to retirants. In response to this concern PERS has implemented a variety of cost cutting measures including: individual case management, mail order prescriptions and a patient pre-certification program. In the coming year PERS will be aggressively pursuing other innovative ways to control health care costs. PERS is dedicated to providing benefit recipients with quality health care to the extent our resources will permit.

Changes Enacted

House Bill 382, effective June 30, 1991, significantly altered the laws relating to the re-employment of PERS and other system retirants. The new law provides that all retirants must commence contributions with the first hour of re-employment with a public employer. The House Bill also eliminated the temporary and part-time exemptions from membership for active employees and substantially reduced the scope of the student exemption. With the exception of excluded classes of employees and those qualifying for and electing a student exemption all non-elected public employees must contribute to PERS or one of the other state retirement systems.

Economic Condition and Outlook

The economy appears to be easing out of recession. Leading economic indicators are as positive as they have been for quite some time. The combination of low interest rates, mild inflation and a possible tax cut should be enough to tip the scales from recession to recovery. The growth in Gross Domestic Product (GDP), which commenced in the second quarter of the year, is expected to continue throughout 1992. Economists are forecasting an annualized real growth in GDP of only 2.0 to 3.0 percent, which is roughly half of what would be expected during a typical recovery period.

Investment Strategies

Our goal in 1992 will be to maintain a sound real rate of return in light of the surrounding economic uncertainties and falling interest rates. Our fixed income portfolio has been restructured to minimize the effects of mortgage prepayments. Corporate bonds are again becoming an attractive option and we expect government issues to again provide good investment opportunities. The equity portfolio will concentrate on companies with attractive long-term fundamentals. The real estate plan for 1992 involves continued emphasis on investments which can deliver stable cash flows.

Financial Information

The management of PERS is responsible for the information contained in this report and has implemented and continues to maintain systems of internal accounting controls which are designed to provide responsible assurances for the safeguarding of assets and the reliability of financial records. We believe that the internal accounting controls currently in place are adequate to meet the purpose for which they were intended. We also believe the financial statements, supporting schedules and statistical tables to be fairly presented in all material respects.

Accounting System and Reports

The accrual basis of accounting is used in recording financial transactions. Expenses are recorded when the liability is incurred, revenues are recorded in the accounting period in which they are earned and become measurable, and investment purchases and sales are recorded as of their trade date. 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 acccrued employer charges and investment proceeds due on sales that have not yet settled. On the balance sheet, 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, employer contributions, and investment income.

Revenues

The reserves needed to finance benefits are accumulated through the collection of employer and employee contributions and through investment income. The 1991 revenue from employee and employer contributions totaled $1,487.9 million. Contribution rates for employees in the state and local government divisions remained unchanged while the rates for employers within the two divisions fell by 0.40 percent. Both employee and employer rates within the law enforcement division were reduced. Investment income for the period was $2,418.4 million.

Expenses

Benefit payments are the primary disbursements of a Retirement System. Recurring benefit payments prescribed by the plan, refunds of the 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 1991 totaled $1,196.9 million. Of this amount $1,099.9 million were paid to fulfill the System's obligation to its retirants. Refunds to members or beneficiaries for reasons of separation from service or death totaled $97.0 million.

Health care costs have more than doubled since 1985 notwithstanding the cost control measures enacted. In 1991 health care costs increased by over 24 percent from the previous year and amounted to $281.8 million. Health care costs represented over 23 percent of the Retirement System's total costs for the year. 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, 1991, funds established by the System totaled $23,506.9 million. The actuarial valuation dated December 31, 1990 reflects an unfunded actuarial accrued liability of $5,538.3 million. This is the difference between net assets available for benefits and the actuarially calculated liability for the fund. These "unfunded actuarial accrued liabilities" are being amortized over future years. The state government liability is being funded over 31 years, the local government portion over 34 years, and the law enforcement portion over 25 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 member and employer contribution rates relatively constant.

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 projected service credit, and is intended to help users assess a public employees retirement system's funding status. The total Pension Benefit Obligation at December 31, 1990 was $18,016.6 million. The net assets available for benefits, excluding health care costs, were $16,388.1 million.

Investments

The investment portfolio provided net revenues of $2,418.4 million in 1991. 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 purchase yield on all investments was 7.06 percent. A detailed listing of the portfolio is presented on pages 40 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, 1990. 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. The purpose of this report 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,

RICHARD E. SCHUMACHER, CPA
Executive Director

MARK SNODGRASS, CPA
Assistant Director-Controller

June 1, 1992, Columbus, Ohio

Public Employees Retirement System of Ohio

The Comprehensive Annual Financial Report

For the Year Ended December 31, 1991

FINANCIAL SECTION

PERS

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, 1991 and 1990, and the related statements of revenues, expenses, and changes in fund balances and of changes in financial position for the years then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. 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, 1991 and 1990, 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.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The Additional Information listed in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The Additional Information is the responsibility of the System's management. The Additional Information has been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

Deloitte & Touche

May 8, 1992

Member
DRT International

Balance Sheets

As of December 31, 1991 and 1990

	1991	1990
ASSETS		
Cash and Short-Term Securities (Note 3):		
Cash	$ 12,368,774	$ 25,670,612
Short-Term Securities	3,272,296,892	5,487,336,799
	3,284,665,666	5,513,007,411
Receivables:		
Employers	107,508,013	115,806,069
Retirement Incentive Plan	41,919,414	56,010,962
Investment Sales Proceeds	73,258,228	5,426,468
Accrued Interest and Dividends	170,777,810	145,442,333
	393,463,465	322,685,832
Investments (Notes 3 and 4):		
Bonds	9,512,500,214	7,423,191,791
Mortgages	4,459,244,905	3,288,205,113
Stocks	4,930,935,903	3,376,519,012
Real Estate	1,035,479,205	936,361,192
Venture Capital	17,386,810	16,042,521
	19,955,547,037	15,040,319,629
Fixed Assets:		
Land	1,708,409	1,708,409
Building and Building Improvements	16,611,544	16,305,470
Furniture, Fixtures, and Equipment	9,269,252	7,494,549
	27,589,205	25,508,428
Accumulated Depreciation	(6,423,519)	(5,552,125)
	21,165,686	19,956,303
Other Assets:		
Deferred Losses on Bonds Sold (Note 4)	37,684,023	59,840,131
Prepaid Expenses (Note 10)	1,330,404	1,340,984
	39,014,427	61,181,115
TOTAL ASSETS	$23,693,856,281	$20,957,150,290
LIABILITIES AND FUND BALANCES		
Liabilities:		
Undistributed Deposits	$ 18,322,689	$ 13,453,430
Medical Benefits Payable	50,879,332	37,729,736
Investment Commitments Payable	25,677,400	48,813,095
Accrued Administrative Expenses (Notes 9 and 10)	3,671,752	3,544,504
Deferred Gains on Bonds Sold (Note 4)	88,366,413	40,860,306
Total Liabilities	186,917,586	144,401,071
Fund Balances (Note 1):		
Employees' Savings Fund	3,719,799,330	3,386,651,914
Employers' Accumulation Fund	11,469,908,460	9,656,612,233
[Unfunded Actuarial Accrued Liability: 1990 — $5,538,339,184 (Note 5)		
Annuity and Pension Reserve Fund	7,752,550,821	7,227,535,972
Survivors' Benefit Fund	547,780,313	527,160,612
Income Fund	17,324,037	14,755,725
Expense Fund	(424,266)	32,763
Total Fund Balances	23,506,938,695	20,812,749,219
TOTAL LIABILITIES AND FUND BALANCES	$23,693,856,281	$20,957,150,290

See Notes to Financial Statements

Statements of Revenues, Expenses, and Changes in Fund Balances

For the Years Ended December 31, 1991 and 1990

	Employees' Savings	Employers' Accumulation	Annuity And Pension Reserve
Revenues:			
Members' Contributions	$ 562,816,170		
Employers' Contributions		$ 925,097,737	
Investment Income			
Other			$ 27,811
Total Revenues	562,816,170	925,097,737	27,811
Expenses:			
Benefit Payments			1,025,420,951
Refunds	86,139,527	10,817,322	
Administrative Expenses			
Total Expenses	86,139,527	10,817,322	1,025,420,951
Excess (Deficit) of Revenues Over Expenses	476,676,643	914,280,415	(1,025,393,140)
Transfers — Increase (Decrease):			
Retirement Benefits	(180,072,555)	(459,791,912)	639,864,467
Disability Benefits	(19,180,061)	(123,029,389)	142,209,450
Survivor Benefits	(7,028,040)	(32,792,216)	
Retirement To (From) Other Systems	(2,408,882)	(1,163,907)	3,572,789
Statutory Interest	68,581,367	(68,581,367)	
Annual Interest		753,274,270	554,558,389
Other	(3,421,056)	831,100,333	210,202,894
Total Transfers	(143,529,227)	899,015,812	1,550,407,989
Balance, Beginning of Year	3,386,651,914	9,656,612,233	7,227,535,972
Balance, End of Year	$3,719,799,330	$11,469,908,460	$7,752,550,821

See Notes to Financial Statements

1991				1990
Survivors' Benefit	Income	Expense	Total	Total
		$ 1,962	$ 562,818,132	$ 517,629,799
			925,097,737	858,207,902
	$2,418,425,646		2,418,425,646	1,876,319,720
$ 6,072	50,995		84,878	159,017
6,072	2,418,476,641	1,962	3,906,426,393	3,252,316,438
74,437,276			1,099,858,227	984,711,577
	534	72	96,957,455	105,565,487
		15,421,235	15,421,235	13,398,269
74,437,276	534	15,421,307	1,212,236,917	1,103,675,333
(74,431,204)	2,418,476,107	(15,419,345)	2,694,189,476	2,148,641,105
39,820,256				
39,823,503	(1,347,656,162)			
15,407,146	(1,068,251,633)	14,962,316		
95,050,905	(2,415,907,795)	14,962,316		
527,160,612	14,755,725	32,763	20,812,749,219	18,664,108,114
$547,780,313	$ 17,324,037	$ (424,266)	$23,506,938,695	$20,812,749,219

Statements of Changes in Financial Position

For the Years Ended December 31, 1991 and 1990

	1991	1990
Funds Provided By:		
Excess of Revenues Over Expenses	$ 2,694,189,476	$ 2,148,641,105
Items Not Requiring Funds:		
Depreciation	1,209,045	873,820
(Gain) Loss on Disposal of Fixed Assets	(2,291)	1,951
Increase (Decrease) in Funds Due to Changes in:		
Employers' Receivables	8,298,056	(7,032,129)
Retirement Incentive Plan Receivable	14,091,548	16,955,909
Investment Sales Proceeds Receivable	(67,831,760)	(5,426,468)
Accrued Interest and Dividends Receivable	(25,335,477)	15,610,597
Deferred Losses on Bonds Sold	22,156,108	12,499,005
Prepaid Expenses	10,580	(239,588)
Undistributed Deposits	4,869,259	2,072,160
Deferred Gains on Bonds Sold	47,506,107	(34,921,502)
Medical Benefits Payable	13,149,596	(842,486)
Investment Commitments Payable	(23,135,695)	46,990,252
Accrued Administrative Expenses	127,248	270,603
Sales and Maturities of Investments— Net Book Value:		
Bonds	17,203,064,144	15,875,450,244
Mortgages	2,301,749,013	1,794,989,000
Stocks	1,929,103,911	795,251,179
Real Estate	13,338,436	32,142,326
Venture Capital	589,031	365,000
Proceeds from Sale of Fixed Assets	2,500	11,500
Total Funds Provided	24,137,148,835	20,693,662,478
Funds Used For:		
Purchase of Investments:		
Bonds	19,292,372,567	16,346,423,601
Mortgages	3,472,788,805	1,170,407,608
Stocks	3,483,520,802	1,312,654,355
Real Estate	112,456,449	238,361,154
Venture Capital	1,933,320	
Additions to Fixed Assets	2,418,637	5,364,810
Total Funds Used	26,365,490,580	19,073,211,528
Net Increase (Decrease) In Funds	(2,228,341,745)	1,620,450,950
Cash and Short-Term Securities, Beginning of Year	5,513,007,411	3,892,556,461
Cash and Short-Term Securities, End of Year	$ 3,284,665,666	$ 5,513,007,411

See Notes to Financial Statements

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, revenues are recorded in the accounting period in which they are earned and become measurable, and investment purchases and sales are recorded as of their trade date.

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 1991 or 1990.

Short-term securities consisting of commercial paper and U.S. Treasury obligations are carried at amortized 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 (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
Building 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.

Federal Income Tax Status — PERS is exempt from Federal income taxes under Section 501(a) of the Internal Revenue Code.

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, 1990, 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 was also fully funded as of December 31, 1990.
- 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, 1990 and 1989 (per latest available actuarial data) follows:

	1990	1989
Employer Units:		
State group	**263**	260
Local government group	**3,085**	3,060
Law enforcement group	**206**	197
Employee Members and Retirants:		
Retirants and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	**129,371**	121,983
Active employees:		
Vested	**155,577**	152,740
Nonvested	**122,386**	117,943

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 service credit (5 years or 60 contributing months) 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 years or 60 contributing months 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 or 60 contributing months of credited service.
- Law Enforcement Officers' Benefits — Law enforcement officers, as defined in Chapter 145 of the Ohio Revised Code, are eligible for special retirement options. These options are available to such members 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. These options also permit 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 benefit. 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 10 or more years of qualifying 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.
- Money Purchase Annuity — PERS age and service retirants who become re-employed in a PERS-covered position must contribute to the System. All re-employed PERS retirants must elect to either: 1) have their retirement allowance suspended for the re-employment period and contribute toward a formula benefit, or 2) continue to receive their retirement allowance and contribute toward a money purchase annuity (based on the calculation of employee contributions for the period of re-employment plus allowable interest, multiplied by two).
- 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 and an actuarially determined rate of investment return, 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 31 and 35 years for state, 34 and 41 years for local government, and 25 and 38 years for law enforcement divisions for retirement allowances and survivor benefits and for health care benefits, respectively. As of December 31, 1991 the rates based on covered payroll were:

	Employee Rate	Employer Rate*
State group	8.5%	13.31%
Local government group	8.5%	13.55%
Law enforcement group	9.0%	16.00%

*These rates fall within the range set by the Ohio Revised Code. Effective July 1, 1991 the state and local rates were revised to 13.31% and 13.55%, from 13.71% and 13.95% respectively, of covered payroll for employers.

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

At December 31, 1991, the carrying amount of PERS' cash deposits was $12,368,774 and the bank balance was $23,168,618. Of the bank balance, $100,000 was insured by Federal Deposit Insurance Corporation (Category 1). The remaining bank balance cash deposits were uninsured and uncollateralized and were held in the name of PERS' pledging financial institution, as required by the Ohio Revised Code (Category 3).

A summary of short-term securities and investments held at December 31, 1991 and 1990 is as follows:

	Book Value	Market Value
	December 31, 1991	
Short-term Securities:		
Commercial Paper	$ 198,687,422	$ 198,687,422
U.S. Treasury Obligations	3,073,609,470	3,073,609,470
Total Short-term Securities	$ 3,272,296,892	$ 3,272,296,892
Investments:		
Bonds — par value	$15,739,045,400	
Net unamortized discount	6,226,545,186	
Bonds — net	9,512,500,214	$10,205,358,079
Mortgages — par value	4,542,025,813	
Net unamortized discount	82,780,908	
Mortgages — net	4,459,244,905	4,720,657,219
Stocks — common	4,930,935,903	6,068,652,125
Real estate	1,035,479,205	942,608,481
Venture capital	17,386,810	18,386,810
Total investments	$19,955,547,037	$21,955,662,714
	December 31, 1990	
Short-term Securities:		
Commercial Paper	$ 133,606,839	$ 133,606,839
U.S. Treasury Obligations	5,353,729,960	5,353,729,960
Total Short-term Securities	$ 5,487,336,799	$ 5,487,336,799
Investments:		
Bonds — par value	$11,610,779,400	
Net unamortized discount	4,187,587,609	
Bonds — net	7,423,191,791	$ 7,545,349,896
Mortgages — par value	3,515,644,591	
Net unamortized discount	227,439,478	
Mortgages — net	3,288,205,113	3,407,020,294
Stocks — common	3,376,519,012	4,135,617,002
Real estate	936,361,192	1,005,043,530
Venture capital	16,042,521	17,042,521
Total investments	$15,040,319,629	$16,110,073,243

Market Value — If available, quoted market prices have been used to value investments as of December 31, 1991 and 1990. 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:

	1991	1990
Short-term securities	**4.89%**	7.18%
Long-term investments	**7.34%**	7.71%
Total yield	**7.06%**	7.59%
Total yield adjusted for amortization of deferred gains and losses on bonds sold	**7.06%**	7.61%

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. 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, 1991 and 1990.

	1991	1990
Deferred Gains on Bonds Sold:		
Beginning balance	**$40,860,306**	$75,781,808
Gains deferred on bonds exchanged	**98,736,995**	24,941,842
Gains accumulated	**(1,710,404)**	(10,974,189)
Gains recognized on sales prior to maturity	**(49,520,484)**	(48,889,155)
Ending balance	**$88,366,413**	$40,860,306
Deferred Losses on Bonds Sold:		
Beginning balance	**$59,840,131**	$72,339,136
Losses deferred on bonds exchanged	**5,038,334**	35,244,323
Losses amortized	**(3,402,940)**	(5,577,368)
Losses recognized on sales prior to maturity	**(23,791,502)**	(42,165,960)
Ending balance	**$37,684,023**	$59,840,131

5. ACTUARIAL ASSUMPTIONS AND METHODS

Significant actuarial assumptions employed by the actuary for funding purposes as of December 31, 1990, the date of the latest actuarial study, and 1989 include:

- Investment Return — 7.75 percent, compounded annually, for all members, retirants, 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. At December 31, 1990 and 1989, additional 5 percent and 10 percent provisions, respectively, were made for near term increases in excess of 5.5 percent. All benefit recipients were assumed to be eligible for Medicare on attainment of age 65, or immediately if retired for disability. The System is experiencing significant increases in health care costs. If these increases continue in excess of the actuarial assumed rate, the System may need to make additional modifications to its health care program.

For actuarial purposes, assets are valued utilizing a method which recognizes book value plus or minus a percentage of realized and unrealized investment gains and losses.

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 (percentage) adjustment are subtracted from this present value to arrive at the unfunded actuarial accrued liability.

The unfunded actuarial accrued liability (includes unfunded health care costs for members and retirants) based upon the two most recent annual actuarial valuations is as follows:

	December 31, 1990				December 31, 1989
	State Group	Local Government Group	Law Enforcement Group	Total	Total
Present value of actuarial accrued liability for active and inactive accounts	$7,314,209,971	$10,388,061,533	$509,662,364	$18,211,933,868	$16,285,179,995
Less:					
Employers' Accumulation Fund*	3,749,585,272	5,338,244,242	343,172,678	9,431,002,192	8,063,733,692
Employees' Savings Fund	1,355,582,819	1,929,547,484	101,521,611	3,386,651,914	3,076,305,964
Market value adjustment	(56,883,459)	(83,412,846)	(3,763,117)	(144,059,422)	(99,374,009)
Unfunded actuarial accrued liability	$2,265,925,339	$3,203,682,653	$ 68,731,192	$ 5,538,339,184	$ 5,244,514,348

*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, 1990 and 1989. 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. At December 31, 1990 and 1989, the unfunded pension benefit obligation was $1,629 million and $1,969 million determined as follows (in millions):

	1990	1989
Pension benefit obligation:		
Retirants and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	$ 8,338	$ 7,753
Current employees:		
Accumulated employee contributions including allocated investment income	3,290	3,006
Employer-financed vested	6,188	5,726
Employer-financed nonvested	201	214
Total pension benefit obligation	18,017	16,699
Net assets available for benefits (excluding amounts allocated to health care costs), at cost (market value: 1990 — $17,230; 1989 — $16,047)	16,388	14,730
Unfunded pension benefit obligation	$ 1,629	$ 1,969

The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rates were 8.5 percent for employees other than law enforcement. Law enforcement employees contribute 9.0 percent of covered salary. The total 1991 employer contribution rate for state employers for the period January 1 to June 30, 1991 was 13.71 percent of covered payroll and 13.31 percent for July 1 to December 31, 1991; 9.29 percent was the portion used to fund pension obligations for the first half and 8.89 percent for the second half of 1991. For local government employer units the rate was 13.95 percent of covered payroll for January 1 to June 30, 1991 and 13.55 percent for July 1 to December 31, 1991; 8.69 percent and 8.29 percent were the portions used to fund pension obligations for the first and second halves of 1991, respectively. The law enforcement employer rate was 16.00 percent of covered payroll and 10.81 percent was the portion used to fund pension obligations for the year 1991. The difference between the total employer rate and the portion used to fund pension obligations (4.42 percent, 5.26 percent, and 5.19 percent for the year 1991 for state, local, and law enforcement employers, respectively) was the amount used to fund the health care program for retirants.

Contributions for 1991 totaling $1,150,230,009 (employers — $601,626,846, including early retirement incentive and regular contributions of $31,706,552 and $569,920,294, respectively; employees — $548,603,163) were made in accordance with the actuarially determined contribution requirements at December 31, 1990. 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 8.8 percent and 8.5 percent of active member payroll for employers and employees, respectively. Employers' contributions consisted of:
a) $363,790,555 normal cost, b) $159,839,887 amortization of unfunded actuarial accrued liability, and c) $77,996,404 to fund survivor benefits.

Historical trend information is unavailable for years prior to 1986. The information for 1986 through 1990 is presented below (dollar amounts in millions):

	(1)	(2)	(3)	(4)	(5)	(6)
Fiscal Year	Net Assets Available For Benefits	Pension Benefit Obligation (PBO)	Percent Funded (1)÷(2)	Unfunded PBO (2)−(1)	Annual Covered Payroll	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%
1989	14,730	16,699	88.2%	1,969	5,597	35.2%
1990	16,388	18,017	91.0%	1,629	6,036	27.0%

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. POST EMPLOYMENT BENEFITS OTHER THAN PENSION

PERS of Ohio provides postretirement health care coverage to age and service retirants with 10 or more years of qualifying Ohio service credit and to disability recipients. Health care coverage for primary survivor recipients is available on a co-pay basis. A portion of each employer's contribution to PERS is set aside for the funding of postretirement health care. See Note 6 for disclosure of employer contribution rates.

The postretirement benefit obligations are advanced-financed and were determined as part of the actuarial valuation at December 31, 1990. The significant actuarial assumptions used to compute the postemployment benefit obligations are described in Note 5 and are the same as those used for funding and to compute contribution requirements. At December 31, 1990 the actuarially accrued liability and unfunded actuarial accrued liability based on the actuarial cost method used were $6,067.6 million and $1,657.7 million, respectively. The number of active contributing participants was 278,969.

Historical trend information is unavailable for years prior to 1987. The information for 1987 through 1990 is presented below (dollar amounts in millions).

Fiscal Year	Net Assets Available for Other Postemployment Benefits	Other Postemployment Benefit Obligation (OPEB)	Percent Funded (1)−(2)	Unfunded OPEB (2)−(1)	Annual Covered Payroll	Unfunded OPEB as a Percentage of Covered Payroll (4)−(5)
1987	$2,924.4	$4,051.1	72.2%	$1,126.7	$4,864	23.2%
1988	3,266.2	5,132.0	63.6%	1,865.8	5,307	35.2%
1989	3,921.1	5,485.6	71.5%	1,564.5	5,597	28.0%
1990	4,409.9	6,067.6	72.7%	1,657.7	6,036	27.5%

Analysis of the dollar amounts of net assets available for OPEB, OPEB obligation and unfunded OPEB obligation in isolation can be misleading. Expressing the net assets available for OPEB as a percentage of the OPEB 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 OPEB obligation and annual covered payroll are both affected by inflation. Expressing the unfunded OPEB obligation as a percentage of annual covered payroll approximately adjusts for effects of inflation and aids analysis of the progress being made in accumulating sufficient assets to pay OPEB when due. Generally, the smaller this percentage, the stronger the plan.

8. LEASES

PERS leases equipment with lease terms of one year or less. Total rent expense was $394,687 and $327,059 for the years ended December 31, 1991 and 1990, respectively.

9. VACATION AND SICK LEAVE

As of December 31, 1991 and 1990, $2,222,594 and $1,885,027, 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.

10. 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 $1,172,014 and $1,070,071, at market value, and the related liability to PERS employees are included in the accompanying financial statements as of December 31, 1991 and 1990, respectively.

11. DEFINED BENEFIT PENSION PLAN

GASB Statement Nos. 5 and 12 established standards for disclosure of information on pension benefits and other postemployment benefits (OPEB), respectively, by all state and local government employers. PERS of Ohio is required to make such disclosures.

All employees of the System are eligible for membership in PERS. The payroll for such employees for the year ended December 31, 1991 was $7,406,565. Covered payroll paid to System employees participating in PERS was $7,011,671 for the year ended December 31, 1991. The System's contributions and its employees' contributions for the year ended December 31, 1991 were $962,270 and $595,992, respectively. These contributions represented employer contributions of 13.95% and 13.55% of covered payroll for January 1, 1991 through June 30, 1991 and July 1, 1991 through December 31, 1991, respectively, and employee contributions of 8.5% of covered payroll. Of the $962,270 in employer contributions for 1991, $593,435 was the portion used to fund the pension benefit obligation and $368,835 was the portion used to fund the OPEB obligation.

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

12. 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.

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 until such time as consensus is reached among the various standard setting authorities.

Cash Receipts and Disbursements

For the Years Ended December 31, 1991 and 1990

	1991	1990
Cash Balance at Beginning of Year	$ 25,670,612	$ (4,835,208)
Receipts:		
Members' Contributions	555,651,752	496,476,134
Employers' Contributions	929,716,757	862,880,293
Purchases of Back Service	13,509,494	12,439,445
State Subsidies	2,315,277	2,828,966
Short-Term Securities Matured and Sold	19,389,048,806	14,869,533,038
Investments Matured and Sold	22,448,985,476	19,289,426,518
Interest and Dividends	1,048,735,116	1,033,049,014
Undistributed Deposits	18,322,689	13,453,430
Miscellaneous	52,030,212	39,720,427
TOTAL CASH RECEIPTS	44,458,315,579	36,619,807,265
Disbursements:		
Refunds:		
Separation	92,544,835	101,484,361
Beneficiaries	4,434,088	4,080,822
Annuity Payments:		
Retirement Annuities	859,698,157	785,200,035
Disability Benefits	150,233,412	129,633,552
Survivor Annuities	73,297,765	67,493,623
Money Purchase Annuities	5,025	
Retirement to Other Systems	3,484,009	3,229,381
Short-Term Securities Purchased	16,884,556,556	16,459,478,167
Investment Purchases	26,386,875,080	19,020,856,467
Administrative Expenses	14,070,227	12,494,895
Additions to Fixed Assets	2,418,263	5,350,142
TOTAL CASH DISBURSEMENTS	44,471,617,417	36,589,301,445
CASH BALANCE AT END OF YEAR	$ 12,368,774	$ 25,670,612

Administrative Expenses

For the Years Ended December 31, 1991 and 1990

	1991	1990
Personal Services:		
Salaries and Wages	$ 7,406,564	$ 6,550,993
Retirement Contributions	1,141,448	1,069,632
Insurance	1,298,589	1,215,278
Bureau of Employment Services	544	
	9,847,145	8,835,903
Supplies:		
Office Supplies	204,114	177,047
Printing and Publications	110,878	136,078
Dues and Subscriptions	20,066	18,378
	335,058	331,503
Other Services and Charges:		
Professional Services:		
Auditing	67,650	67,100
Actuarial and Technical	143,000	132,580
Investment	321,992	335,945
Medical	290,416	245,074
Pension Review	4,138	
Employee Training	27,013	44,913
Data Processing Contract	38,829	39,877
Disaster Recovery	14,400	14,712
Communication:		
Telephone and Telegraph	139,455	122,122
Freight, Express, and Drayage	9,906	6,905
Postage	830,833	735,186
Transportation and Travel	167,879	184,351
Utilities	234,421	207,632
Equipment Rental	858,672	632,448
Repair and Maintenance:		
Equipment	6,957	3,747
Building	299,110	255,969
Microfilm	59,103	82,947
Retirement Study Commission	221,605	163,998
Miscellaneous	294,608	81,537
	4,029,987	3,357,043
Depreciation On:		
Building	356,158	138,928
Equipment and Fixtures	852,887	734,892
	1,209,045	873,820
TOTAL ADMINISTRATIVE EXPENSES	$15,421,235	$13,398,269

Investment Summary

For the Year Ended December 31, 1991

	December 31, 1990		
	Book Value	Market Value	Purchases
Bonds			
U.S. Gov't. & Agencies	$ 5,930,940,084	$ 6,065,990,505	$18,826,440,135
Canadian	1,492,251,707	1,479,359,391	465,932,432
Mortgages	3,288,205,113	3,407,020,294	3,472,788,805
Stocks — Common	3,376,519,012	4,135,617,002	3,483,520,802
Real Estate	936,361,192	1,005,043,530	112,456,449
Venture Capital	16,042,521	17,042,521	1,933,320
Total	$15,040,319,629	$16,110,073,243	$26,363,071,943

Revenues by Source

Year	Members' Contributions	Employers' Contributions	Employers' Contributions as a Percentage of Covered Payroll	Investment Income (Net)	Other	Total
1982	$311,779,921	$505,809,912	13.93%	$ 686,420,515*	$ 192,959	$1,504,203,307
1983	330,125,897	544,109,013	13.94	666,680,588	56,228	1,540,971,726
1984	345,368,439	557,498,416	13.94	713,857,919	187,347	1,616,912,121
1985	370,005,032	597,079,409	13.94	1,601,928,648	251,641	2,569,264,730
1986	391,193,417	627,520,315	13.94	1,830,721,267	209,457	2,849,644,456
1987	420,977,772	741,840,413	13.92	1,325,054,638	362,986	2,488,235,809
1988	446,091,129	769,144,695	13.93	1,441,226,325	10,160,620	2,666,622,769
1989	476,415,655	804,745,875	13.95	1,823,780,073	2,535,968	3,107,477,571
1990	517,629,799	858,207,902	13.96	1,876,319,720	159,017	3,252,316,438
1991	562,818,132	925,097,737	13.75	2,418,425,646	84,878	3,906,426,393

*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.

		December 31, 1991		
Maturities, Sales & Accruals	Book Value	Market Value	% Portfolio (Book Value)	Purchase Yield
$16,806,098,236	$ 7,951,281,983	$ 8,469,277,077	39.84%	8.01%
396,965,908	1,561,218,231	1,736,081,002	7.82	9.40%
2,301,749,013	4,459,244,905	4,720,657,219	22.35	9.14%
1,929,103,911	4,930,935,903	6,068,652,125	24.71	5.02%
13,338,436	1,035,479,205	942,608,481	5.19	
589,031	17,386,810	18,386,810	.09	2.30%
$21,447,844,535	$19,955,547,037	$21,955,662,714	100.00%	7.34%

Expenses by Type

Year	Benefit Payments	Refunds	Administrative Expenses	Total
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
1990	984,711,577	105,565,487	13,398,269	1,103,675,333
1991	1,099,858,227	96,957,455	15,421,235	1,212,236,917

ACTUARIAL SECTION

PERS

Report of the Actuary

GABRIEL, ROEDER, SMITH & COMPANY
Actuaries & Consultants

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

May 27, 1992

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

Ladies and Gentlemen:

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 the 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, 1990. 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 gains from investment income. These gains were partially offset by larger than assumed health care cost increases and by turnover at lower rates than assumed. The high rate of health care inflation in recent years continues to be a cause for concern. Some restructuring will probably be necessary to maintain a balance between allocated contributions and retiree health benefits.

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
Brian B. Murphy

Norman L. Jones, F.S.A.   Brian B. Murphy, F.S.A.

NLJ:ct

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. For actuarial purposes, assets are valued utilizing a method which recognizes book value plus or minus a percentage of realized and unrealized investment gains and losses. 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. 1990 — 7.75 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 Men	State & Local Women	Law Enforcement
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:

		% Separating Within Next Year								
				Withdrawal						
Sample Ages	Years of Service	Death		State		Law Enforcement	Local		Disability	
		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	.12%	.11%	8.30	10.70	5.40	8.10	10.70	.06%	.06%
40		.25	.15	5.40	6.60	4.00	5.70	6.60	.37	.21
50		.71	.43	2.60	3.80	2.40	3.20	3.80	1.04	.69
60		1.80	1.16	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: Average Allowance
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
1987	258,981	4,864	18,782	100,010	565	5,652
1988	264,868	5,307	20,036	103,150	630	6,108
1989	270,683	5,597	20,677	105,643	715	6,768
1990	277,963	6,036	21,715	107,177	762	7,109

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
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
1989	23,794	18,550*	5,244	78	5,597	94
1990	26,193	20,655*	5,538	79	6,036	92

*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)
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
1989	3,076	7,510	13,208	18,550*	100	100	60
1990	3,386	7,981	14,826	20,655*	100	100	63

*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 1990	1989	1988	1987	1986
Age & Service Retirements. If members retire at older ages than assumed, there is a gain. If younger ages, a loss.	**$ 38.0**	$ 16.7	$ 22.0	$ 4.2	$ (1.5)
Disability Retirements. If disability claims are less than assumed, there is a gain. If more claims, a loss.	**23.4**	35.6	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.	**35.6**	21.4	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.	**(256.8)**	(117.7)	(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.	**165.4**	352.7	(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.	**382.1**	492.9	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.	**(188.5)**	40.5	(390.8)	(244.8)	(199.4)
Gain (or Loss) During Year from Financial Experience	**$199.2**	$842.1	($589.5)	($157.5)	$777.9

STATISTICAL SECTION

PERS

Employer Contribution Rates

	Year	Current			Unfunded Liability		[illegible]
		Normal	Health	Survivor Benefits	Past Service	Health	
State	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
	1990	5.15	3.16	1.01	3.07	1.32	13.71
	1991*	5.48	3.34	1.01	2.40	1.08	13.31
Local	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
	1990	4.65	3.92	0.99	2.89	1.50	13.95
	1991*	4.99	4.13	0.99	2.31	1.13	13.55
Law Enforcement	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
	1990	7.73	4.33	1.45	3.34	1.25	18.10
	1991	8.23	4.37	1.45	1.13	0.82	16.00

*Rate effective July 1, 1991

Schedule of Average Benefit Payments*

	Years Credited Service					
	5-9	10-14	15-19	20-24	25-30	30+
Period 1/1/87-12/31/87						
Average Monthly Benefit*	$206.81	$369.85	$557.53	$772.06	$1,029.37	$1,581.89
Average Final Average Salary	$12,369.89	$16,662.40	$19,231.60	$20,834.68	$22,912.65	$26,477.03
Number of Active Recipients	393	977	966	906	779	1,707
Period 1/1/88-12/31/88						
Average Monthly Benefit*	$233.02	$353.64	$583.90	$787.19	$1,067.45	$1,712.97
Average Final Average Salary	$13,477.21	$16,144.78	$20,219.58	$21,301.28	$24,273.87	$28,989.86
Number of Active Recipients	456	1,034	1,039	1,017	817	2,026
Period 1/1/89-12/31/89						
Average Monthly Benefit*	$247.85	$387.78	$596.69	$829.28	$1,070.42	$1,720.86
Average Final Average Salary	$15,390.69	$17,828.03	$21,221,49	$23,425.68	$24,798.57	$29,085.04
Number of Active Recipients	450	1,034	969	862	803	1,568
Period 1/1/90-12/31/90						
Average Monthly Benefit*	$244.25	$365.34	$584.26	$802.87	$1,043.60	$1,619.26
Average Final Average Salary	$15,084.05	$17,440.62	$20,971.30	$22,771.35	$25,182.94	$29,100.88
Number of Active Recipients	400	1,102	958	896	698	1,141
Period 1/1/91-12/31/91						
Average Monthly Benefit*	$280.04	$419.67	$634.90	$858.67	$1,172.64	$1,834.40
Average Final Average Salary	$17,740.00	$20,042.18	$23,470.59	$25,135.61	$28,697.74	$33,235.73
Number of Active Recipients	310	885	781	705	678	1,197
Period 1/1/87-12/31/91						
Average Monthly Benefit*	$242.39	$379.26	$591.46	$810.01	$1,076.70	$1,693.88
Average Final Average Salary	$14,812.37	$17,623.60	$21,022.91	$22,693.72	$25,173.15	$29,377.71
Number of Active Recipients	2,009	5,032	4,713	4,386	3,775	7,639

*"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
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**
1990	85,916	8,294	10,981	**105,191**
1991	87,364	8,670	11,068	**107,102**

Number of New Benefit Recipients and Refund Payments

Year	Annuities	Disabilities	Survivors	Refund
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
1990	4,140	745	451	24,878
1991	4,406	802	534	27,165

Disbursements by Category

Year	Benefits: Annuities	Disabilities	Other Systems	Survivors	CPI	Post Retirement Legislative Incr.
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
1990	493,081,656	63,546,647	3,229,381	37,764,185	106,013,735	50,389,589
1991	531,188,927	70,423,067	3,484,009	39,601,327	120,558,352	47,510,253

MEMBER COUNT

Year-End	Active Contributing	Inactive	Total
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**
1990	278,969	73,882	**352,851**
1991	328,981	71,216	**400,197**

MEMBER CONTRIBUTION RATES

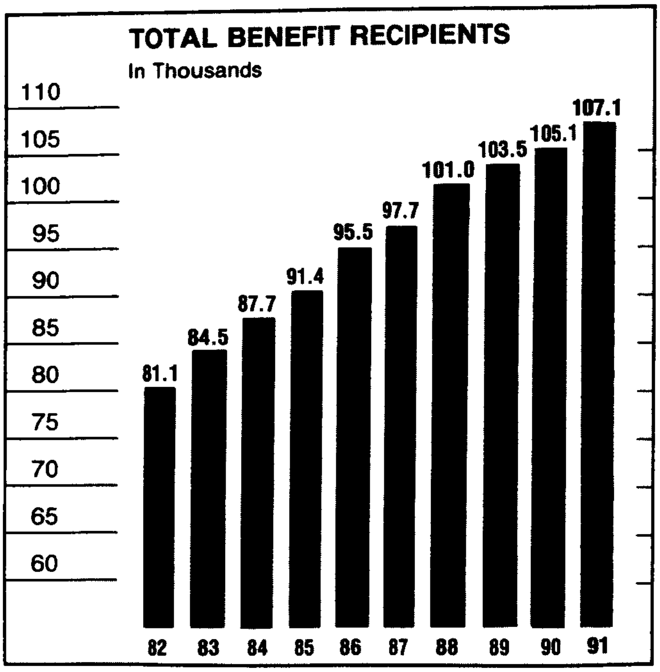
Year	Regular Rate	Law Enforcement Rate
1982	8.5%	9.5*%
1983	8.5	9.5
1984	8.5	9.5
1985	8.5	9.5
1986	8.5	9.5
1987	8.5	9.5
1988	8.5	9.5
1989	8.5	9.5
1990	8.5	9.5
1991	8.5	9.0

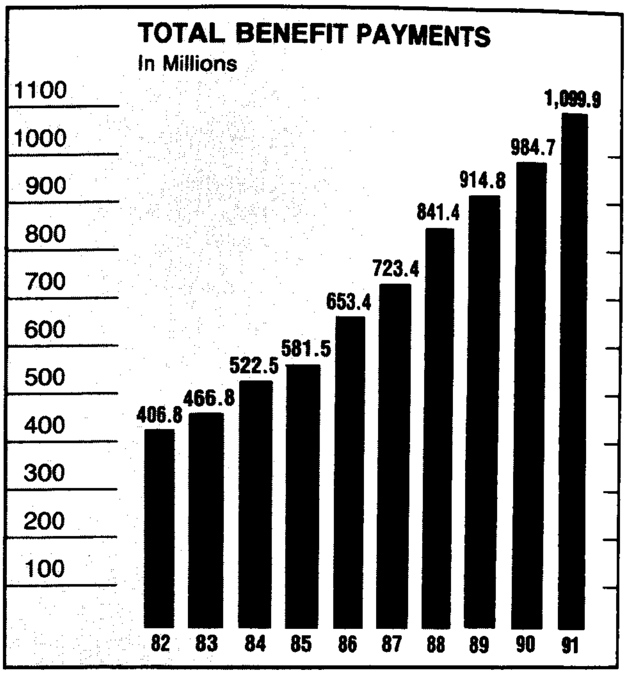
*Effective November 1982

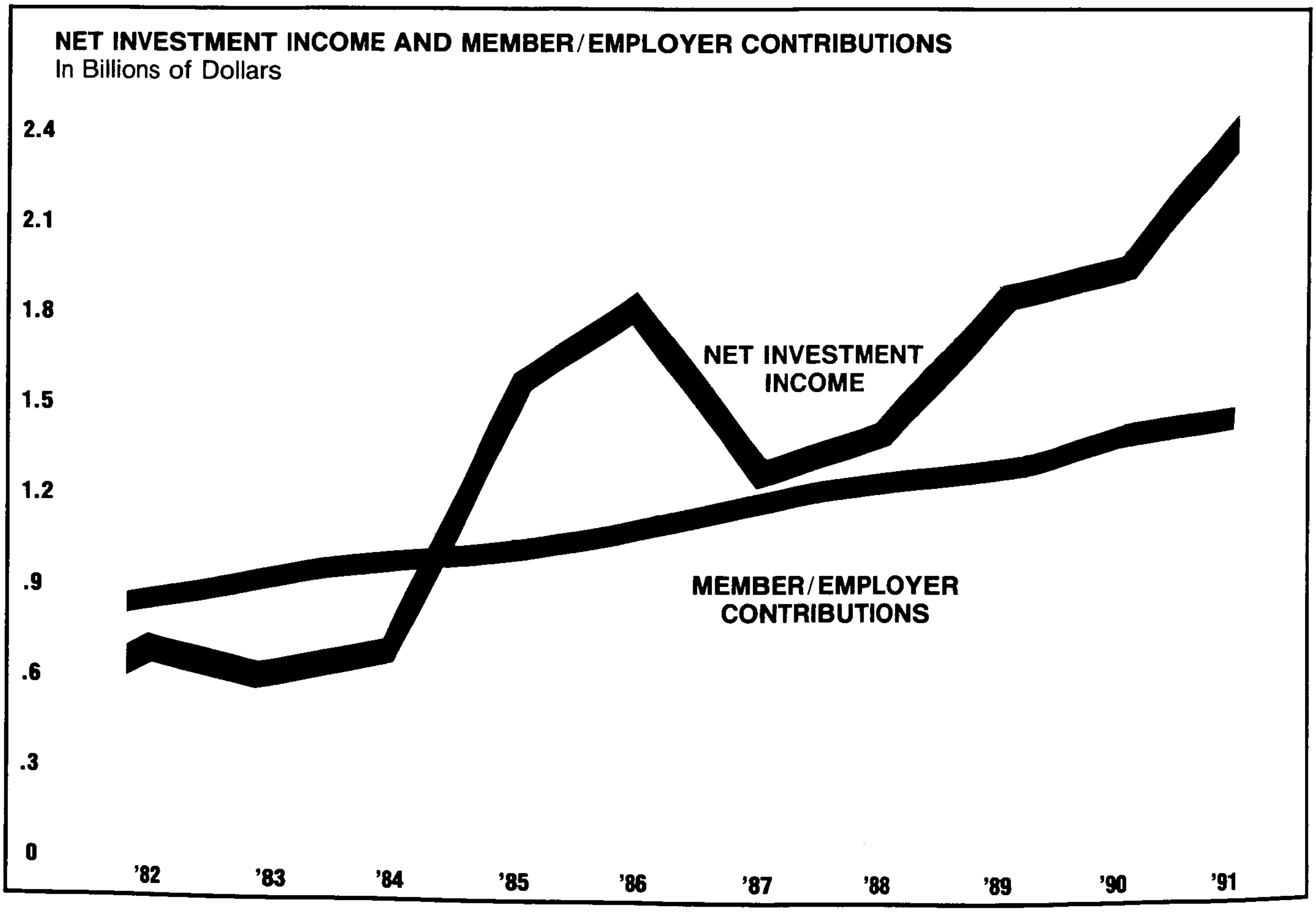
Health Care	Death Benefits	Refunds: Separation	Refunds: Beneficiaries	Refunds: Other	Total All Payments
$ 78,112,241	$1,436,081	$63,954,454	$2,722,037	$ 302,391	**$ 473,807,379**
103,156,330	1,585,587	59,871,357	2,673,207	600,262	**529,915,384**
104,257,965	1,667,291	80,620,354	3,154,663	1,333,043	**607,574,316**
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**
203,624,997	4,478,907	80,927,621	3,751,617	597,112	**1,000,063,689**
225,610,040	5,076,344	78,847,373	4,080,822	22,637,292	**1,090,277,064**
281,799,972	5,292,320	74,682,948	4,434,088	17,840,419	**1,196,815,682**

NUMBER OF EMPLOYER UNITS

Year	State	County	Law Enforcement	Municipalities	Villages	Miscellaneous	Libraries	Townships	Totals
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**
1990	263	239	206	341	613	327	255	1,310	**3,554**
1991	263	237	212	339	611	327	256	1,311	**3,556**


TOTAL BENEFIT RECIPIENTS
In Thousands
110
105
100
95
90
85
80
75
70
65
60
81.1
84.5
87.7
91.4
95.5
97.7
101.0
103.5
105.1
107.1
82
83
84
85
86
87
88
89
90
91


TOTAL BENEFIT PAYMENTS
In Millions
1100
1000
900
800
700
600
500
400
300
200
100
406.8
466.8
522.5
581.5
653.4
723.4
841.4
914.8
984.7
1,099.9
82
83
84
85
86
87
88
89
90
91


NET INVESTMENT INCOME AND MEMBER/EMPLOYER CONTRIBUTIONS
In Billions of Dollars
2.4
2.1
1.8
1.5
1.2
.9
.6
.3
0
NET INVESTMENT INCOME
MEMBER/EMPLOYER CONTRIBUTIONS
'82
'83
'84
'85
'86
'87
'88
'89
'90
'91

INVESTMENT SECTION

PERS

Investment Report

The Economy in 1991

Entering 1991, the utmost concerns upon investors' minds were the state of the economy and how the Persian Gulf crisis would end. As the year came to a close only one of the two worries remained — the United States was still in a recession. The "credit crunch" that began in 1990 carried on into 1991. Borrowers were still unable to secure funds as the nation's lending institutions continued to invest rather than lend. The Federal Reserve did its part in trying to jumpstart the economy. All in all, they cut the discount rate five times during 1991. The fifth and final cut on December 20 was a full one percentage reduction to 3.5 percent. The slowing of inflation in the second half of the year allowed the Federal Reserve to be aggressive. The stock and bond markets both ended the year at lofty levels as the interest rate reductions fueled rallies in both markets. The recession was confirmed by economic statistics during 1991. Real Gross Domestic Product (GDP) for 1991 fell into negative territory registering −0.7 percent rate of growth. This was well below the 1 percent gain attained by the economy during 1990. The Consumer Price Index (CPI), a widely followed measure of inflation, rose 3.1 percent during 1991. This was down from a 5.5 percent rise in 1990. The economic weakness caused many to lose their jobs in 1991. Unemployment at year end 1991 stood at 7.1 percent versus 6.1 percent in 1990.

Investment Market Returns in 1991

The bond market had a good year in 1991 as the Salomon Brothers Index, an index used to simulate the entire bond market, returned 15.97 percent. An aggressive Federal Reserve caused the yield curve to steepen as long term rates could not match the short term rates declines. The yield difference between the 30 year U.S. Treasury Bond and the two year Treasury Note widened from 1.10 percent at the beginning of 1991 to 2.65 percent at year end. Longer maturity bonds still had the best returns in 1991 and were aided by a 0.40 percent interest rate decline during the fourth quarter. Corporate bonds had a good year despite the ongoing recession. As investors reached for extra yield in 1991 the weaker corporate credits actually outperformed the stronger ones. Even though corporates as a whole had a good year there was still plenty of trouble in this sector. A record $509 billion in corporate debt was downgraded by the major rating agencies during the year. The average rating for all United States corporate debt fell to "BB," a non-investment grade. The political turmoil in Canada eased in 1991 and allowed the U.S. dollar denominated Canadian issues to do very well. Mortgage backed securities returns were depressed by the fear and reality of rapid prepayments as the interest rate declines allowed many American families to refinance their home mortgages. U.S. Treasury Bills returned only 5.75 percent in 1991.

All major stock market indices closed out 1991 at all-time highs despite the failure of the nation's economy to rebound from its recessionary state. The total returns for the Standard and Poor's 500 Stock Index and the Dow Jones Industrial Average were 30.03 percent and 23.94 percent, respectively. The NASDAQ Composite Index, a common proxy for small capitalization and growth-oriented stocks finished the year up 56.8 percent. Eighty percent of the stock market's return was accounted for in the three month period beginning in the middle of January. This rally was ignited by the swift and successful campaign to end the Persian Gulf crisis. After the Federal Reserve cut the discount rate in December the stock market rallied approximately 9 percent in the remaining six trading days of the year. Consumer goods, financial and health care stocks were the best performing sectors in 1991 because interest rates declined and other sectors showed disappointing earnings relative to investors' expectations. The worst performing groups in 1991 were concentrated in capital goods, energy, computers and automobile manufacturers. The common denominator among these groups was the exposure to the economy.

Oversupplied markets, a shortage of capital, and the recession continued to have a paralyzing effect on the real estate market in 1991. Asset writedowns were much more commonplace in 1991 than in any year of the previous decade. Real estate returns as measured by the NCREIF-Russell Index chalked up its worst performance in history with a return of −6.4 percent. Value declines occurred across the board as low transaction volume and a sluggish economy forced appraisers to become more pessimistic in their valuations. Once again, office buildings and properties located in the northeast took the harshest beating. Residential property was the only sector showing any sign of a near term rebound at year end. In the wake of another strong year for stocks and bonds, real estate is becoming a more competitive investment. Devalued real estate can be employed in a portfolio to maintain current yield requirements in the face of lower interest rates and low dividend yields. Capital for real estate remains tight but signs of easing are becoming evident. The bad news is the sums being raised fall well short of the capital needed to take lenders out of their problem assets. Adding to the problem is the largest owner of real estate, the Resolution Trust Corporation (RTC), is constantly putting new properties on the market. The RTC was established by the government to liquidate assets of problem bank and savings and loan institutions.

PERS Performance

PERS' total fund performance in 1991 was 15.7 percent. This return was well above our actuarial rate of 7.75 percent. Our return was hindered in 1991 by an underweighting in equities while maintaining a relatively high cash equivalents portfolio. The stock market did much better in 1991 than we anticipated given the continued economic weakness. Over the past five and 10 year periods the PERS portfolio has had an average annualized return of 10.0 percent and 14.0 percent, respectively.

The PERS bond portfolio had a total return of 17.32 percent in 1991, 1.35 percent better than the Salomon Brothers Index. We maintained an average maturity on the portfolio that was longer than that of the index and thereby outperformed it as interest rates declined dramatically in the second half of 1991. The bond portfolio's return in the third and fourth quarters of 1991 accounted for nearly 75 percent of the year's return. Interest rate declines were fueled by an aggressive Federal Reserve and the continuing weakness in the U.S. economy.

PERS' equity portfolio had a total return of 24.44 percent in 1991. The combination of our intermediate term expectations and our longer term strategy allowed us to have high absolute returns but disappointing on a relative basis. In the face of continued economic weakness, the stock market responded with a virtuoso performance. The dichotomy between the performance of the PERS equity portfolio and the Standard and Poor's 500 Index can be explained by the relative weightings between consumer, financial and economically-sensitive groups. Basically, we were de-emphasizing the very same groups that investors found most appealing in 1991.

The real estate portfolio had a total return of −10.39 percent in 1991 versus −6.42 percent for the NCREIF-Russell Index. This is the first time in six years that we have underperformed the index. However, on a cumulative basis we continue to outperform the index by a relatively wide margin. Growth oriented investments suffered the worst in this environment but even our large apartment portfolio depreciated. Pockets of strength could be found among our newer investments including outlet malls, hotels, and mortgage investments. A lower cost basis and higher cash yields were primarily responsible for the better performance among these properties.

Economic Outlook

The consensus among economists is for the current recession to continue through the first quarter of 1992. Economists also are forecasting an economic recovery to begin sometime in the second quarter of this year. The rebound in GDP will at least carry through the end of the year. However, the growth in real GDP in this projected recovery will be below norms when compared to past economic rebounds. Historically, in the first year of a recovery, real GDP reaches an annual growth rate of 5.0 to 6.0 percent. For the projected rebound in 1992, economists are looking only for real GDP growth in the 2.0 to 3.0 percent range. The rationale behind the consensus is low interest rates and the expectations of even lower interest rates will finally jumpstart the economy. With 1992 being a presidential election year, tax cuts of one kind or another are a virtual certainty regardless of the implications for the federal budget deficit. Overlay a mild inflation forecast with the tax cuts and lower interest rates and all the ingredients for an economic recovery are in place.

The consensus economic opinion should be treated with a great deal of skepticism. The economists' track record for predicting the direction of the economy does not inspire confidence. Should this 1992 economic forecast prove to be wrong, it will probably be due to the fact the recession was longer and/or more severe than initially predicted. Events originating in Japan, or Germany, or the former Soviet Union and their repercussions may negatively affect the current U.S. recession. On the other hand, how much longer will politicians remain patient with this sluggish environment, particularly in an election year? The Bush Administration and Congress will probably enact a fiscal package designed to stimulate the economy in 1992. Historically, the combination of lower interest rates and tax cuts usually gets an economy out of a recession. Perhaps this is what last year's stock market gains were forecasting. Therefore, further gains in the 1992 stock market will be determined by the magnitude of a recovery and how interest rates react to turnaround in the economy.

Investment Direction of 1992

The current debt burden and lack of capital will continue to have a deflationary effect on asset values which results in balance sheet stress for corporations. Companies with fundamentally sound balance sheets and strong cash flows have a tremendous competitive advantage over their industry peers. The subsequent investment decision is based on the logic that this advantage will eventually translate into superior earnings and higher security prices. While a deflationary environment is not good for the stock market, the PERS equity portfolio is well positioned for this potential outcome. A deflationary environment would also allow interest rates to decline further which would cause the returns from our bond portfolio to be high given its current structure. As a result of last year's price adjustments, we believe the worst in the real estate returns are behind us and our performance is likely to turn positive once again in 1992. Our goal in 1992 will be to generate a positive rate of return that, at a minimum, will meet our actuarial needs while reducing the overall risk to PERS.

Investment Portfolio Summary

As of December 31, 1991

	Par Value	Book Value	Market Value	% of Portfolio (Book Value)	Yield
Bonds					
U.S. Gov't. & Agencies	$14,136,450,400	$ 7,951,281,983	$ 8,469,277,077	39.84%	8.01%
Canadian	1,602,595,000	1,561,218,231	1,736,081,002	7.82	9.40%
Mortgages	4,542,025,813	4,459,244,905	4,720,657,219	22.35	9.14%
Stocks — Common		4,930,935,903	6,068,652,125	24.71	5.02%
Real Estate		1,035,479,205	942,608,481	5.19	
Venture Capital		17,386,810	18,386,810	.09	2.30%
TOTAL PORTFOLIO		$19,955,547,037	$21,955,662,714	100.00%	7.34%

Detailed Listing of Investment Portfolio

As of December 31, 1991

U.S. GOVERNMENT & AGENCIES BONDS

Name	Coupon	Maturity	Par Value	Book Value	Market Value
FHA — Series MM	4.625%	12/01/1992	$ 3,400	$ 2,743	$ 3,385
Government Loan Trusts — Class 1-B	8.500%	04/01/2006	7,500,000	7,494,504	8,242,950
Government Trust Certificates Class 1-D	0.000%	11/15/2001	38,350,000	15,398,692	18,618,541
Government Trust Certificates Class 1-D	0.000%	11/15/2002	35,550,000	12,980,005	15,739,762
Government Trust Certificates Class 1-D	0.000%	05/15/2004	43,700,000	13,890,407	16,861,208
Government Trust Certificates Class 1-D	0.000%	11/15/2004	17,900,000	5,430,798	6,628,907
Government Trust Certificates Class 1-D	0.000%	05/15/2005	18,035,000	5,222,974	6,376,454
Government Trust Certificates Class 1-D	0.000%	05/15/2008	62,780,000	13,768,760	17,028,447
Government Trust Certificates Class 1-D	0.000%	11/15/2008	30,000,000	6,320,784	7,806,300
Government Trust Certificates Class 1-D	0.000%	11/15/2009	9,395,000	1,863,223	2,245,405
Government Trust Certificates Class 1-D	0.000%	11/15/2010	5,000,000	869,261	1,098,950
Government Trust Certificates Class 1-D	0.000%	05/15/2011	36,000,000	5,985,249	7,586,640
Government Trust Certificates Class 1-D	0.000%	11/15/2011	28,000,000	4,444,096	5,657,400
Government Trust Certificates Class 1-D	0.000%	05/15/2012	24,000,000	3,643,439	4,657,680
Government Trust Certificates Class 1-D	0.000%	11/15/2012	12,000,000	1,739,114	2,236,920
Government Trust Certificates Class 1-D	0.000%	05/15/2013	14,000,000	1,944,671	2,506,700
Government Trust Certificates Class 2-F	0.000%	11/15/1995	24,860,000	17,541,836	19,818,392
Government Trust Certificates Class 2-F	0.000%	05/15/1996	29,000,000	19,517,496	22,147,590
Government Trust Certificates Class 2-F	0.000%	05/15/2004	63,000,000	20,018,975	24,307,920
Government Trust Certificates Class 2-F	0.000%	05/15/2005	39,000,000	11,347,940	13,788,840
Government Trust Certificates Class 2-F	0.000%	11/15/2005	76,000,000	21,108,589	25,878,760
Government Trust Certificates Class 2-F	0.000%	11/15/2006	29,900,000	7,570,497	9,339,265
Resolution Funding Corporation	8.625%	01/15/2021	153,135,000	152,882,966	170,698,053
Resolution Funding Corporation	0.000%	04/15/2003	15,000,000	7,036,369	6,471,600
Resolution Funding Corporation	0.000%	10/15/2003	32,494,000	12,459,116	13,491,508
Resolution Funding Corporation	0.000%	04/15/2006	64,500,000	18,551,821	21,503,010
Resolution Funding Corporation	0.000%	04/15/2007	67,790,000	17,850,553	20,682,051
Resolution Funding Corporation	0.000%	10/15/2007	39,000,000	9,818,357	11,393,070
Resolution Funding Corporation	0.000%	04/15/2008	35,000,000	8,421,888	9,818,550
Resolution Funding Corporation	0.000%	10/15/2008	40,000,000	9,236,789	10,774,000
Resolution Funding Corporation	0.000%	04/15/2009	72,100,000	15,936,048	18,614,057
Resolution Funding Corporation	0.000%	10/15/2009	84,500,000	17,897,341	20,906,145
Resolution Funding Corporation	0.000%	04/15/2011	49,300,000	9,142,403	10,761,697
Resolution Funding Corporation	0.000%	04/15/2012	66,245,000	12,309,456	13,337,105
Resolution Funding Corporation	0.000%	10/15/2012	10,000,000	1,625,296	1,935,300
Resolution Funding Corporation	0.000%	04/15/2013	67,637,000	11,487,143	12,556,809
Resolution Funding Corporation	0.000%	10/15/2013	28,210,000	4,532,967	5,034,074
Resolution Funding Corporation	0.000%	04/15/2014	64,560,000	10,158,775	11,073,976
Resolution Funding Corporation	0.000%	10/15/2014	65,000,000	8,891,306	10,717,200
Resolution Funding Corporation	0.000%	10/15/2015	137,300,000	18,378,697	20,916,282
Resolution Funding Corporation	0.000%	01/15/2001	27,060,000	12,285,124	14,243,842
Resolution Funding Corporation	0.000%	07/15/2001	22,260,000	9,672,321	11,256,659
Resolution Funding Corporation	0.000%	01/15/2002	12,075,000	5,024,341	5,829,327
Resolution Funding Corporation	0.000%	07/15/2002	12,075,000	4,808,844	5,587,464
Resolution Funding Corporation	0.000%	01/15/2003	30,533,000	12,720,020	13,462,610
Resolution Funding Corporation	0.000%	07/15/2003	36,000,000	15,245,063	15,227,280
Resolution Funding Corporation	0.000%	01/15/2006	7,000,000	2,060,489	2,381,960
Resolution Funding Corporation	0.000%	07/15/2006	13,000,000	3,663,385	4,245,020
Resolution Funding Corporation	0.000%	01/15/2007	11,000,000	2,963,392	3,426,390
Resolution Funding Corporation	0.000%	01/15/2008	15,000,000	3,684,735	4,290,450
Resolution Funding Corporation	0.000%	07/15/2010	13,000,000	2,571,595	3,015,870
Resolution Funding Corporation	0.000%	01/15/2012	60,000,000	10,408,808	12,319,800
Resolution Funding Corporation	0.000%	07/15/2012	27,000,000	4,494,766	5,328,990
Resolution Funding Corporation	0.000%	01/15/2013	38,935,000	6,363,177	7,371,952
Resolution Funding Corporation	0.000%	07/15/2013	22,000,000	3,349,228	4,004,000

NOTE: Cents omitted. Columns will not add

Name	Coupon	Maturity	Par Value	Book Value	Market Value
Resolution Funding Corporation	0.000%	07/15/2014	$ 51,000,000	$ 7,599,492	$ 8,575,650
Resolution Funding Corporation	0.000%	01/15/2020	6,000,000	555,679	654,720
U.S. Treasury Receipts	0.000%	08/15/1997	77,330,000	49,950,004	54,186,677
U.S. Treasury Receipts	0.000%	02/15/2002	35,000,000	14,621,766	17,007,900
U.S. Treasury Receipts	0.000%	08/15/2002	75,000,000	29,616,651	34,989,750
U.S. Treasury Receipts	0.000%	02/15/2003	100,000,000	37,893,662	44,480,000
U.S. Treasury Receipts	0.000%	08/15/2003	50,000,000	18,308,317	21,348,500
U.S. Treasury Receipts	0.000%	02/15/2004	200,000,000	69,577,247	81,652,000
U.S. Treasury Receipts	0.000%	05/15/2004	56,645,000	21,161,565	22,677,825
U.S. Treasury Receipts	0.000%	08/15/2004	234,675,000	76,553,589	91,997,293
U.S. Treasury Receipts	0.000%	02/15/2005	471,375,000	158,759,801	176,935,320
U.S. Treasury Receipts	0.000%	05/15/2005	141,365,000	49,117,515	52,019,492
U.S. Treasury Receipts	0.000%	02/15/2006	25,000,000	7,520,185	8,626,000
U.S. Treasury Receipts	0.000%	02/15/2007	38,810,000	10,534,307	12,275,214
U.S. Treasury Receipts	0.000%	08/15/2008	200,000,000	50,323,268	55,804,000
U.S. Treasury Receipts	0.000%	05/15/2009	100,000,000	22,389,260	26,211,000
U.S. Treasury Receipts	0.000%	05/15/2010	200,000,000	46,094,771	48,276,000
U.S. Treasury Receipts	0.000%	02/15/2011	200,000,000	43,336,355	45,464,000
U.S. Treasury Receipts	0.000%	08/15/2011	118,685,000	23,903,058	25,905,374
U.S. Treasury Receipts	0.000%	02/15/2012	98,100,000	19,339,400	20,598,057
U.S. Treasury Receipts	0.000%	05/15/2012	601,125,000	112,946,525	123,807,705
U.S. Treasury Receipts	0.000%	05/15/2013	100,000,000	15,910,576	19,059,000
U.S. Treasury Receipts	0.000%	08/15/2014	50,000,000	7,159,161	8,629,000
U.S. Treasury Receipts	0.000%	02/15/2015	844,025,000	120,335,558	140,732,728
U.S. Treasury Receipts	0.000%	08/15/2015	762,084,000	101,554,627	122,520,244
U.S. Treasury Receipts	0.000%	11/15/2015	1,218,125,000	161,663,470	192,110,493
U.S. Treasury Receipts	0.000%	02/15/2016	83,060,000	10,552,719	12,846,890
U.S. Treasury Receipts	0.000%	11/15/2016	50,000,000	6,028,944	7,281,000
United States Treasury	7.125%	03/31/1993	109,640,000	109,968,390	113,237,288
United States Treasury	6.750%	05/31/1993	400,000,000	406,733,952	412,376,000
United States Treasury	7.000%	06/30/1993	817,480,000	845,580,875	846,598,637
United States Treasury	6.875%	07/31/1993	402,600,000	405,835,253	416,566,194
United States Treasury	7.750%	11/15/1993	265,960,000	273,940,469	279,840,452
United States Treasury	8.625%	01/15/1995	15,150,000	15,546,677	16,546,678
United States Treasury	8.875%	07/15/1995	13,290,000	14,306,620	14,672,957
United States Treasury	0.000%	02/15/1996	71,194,000	53,976,503	55,917,191
United States Treasury	7.750%	03/31/1996	344,865,000	350,288,309	369,005,550
United States Treasury	7.375%	05/15/1996	250,000,000	246,532,434	263,827,500
United States Treasury	7.625%	05/31/1996	938,400,000	935,929,153	999,396,000
United States Treasury	7.875%	07/15/1996	155,995,000	163,556,389	167,646,266
United States Treasury	8.500%	04/15/1997	683,500,000	720,920,449	754,836,895
United States Treasury	8.500%	07/15/1997	181,405,000	194,393,409	200,623,045
United States Treasury	8.875%	11/15/1997	362,455,000	392,233,692	407,533,528
United States Treasury	9.250%	08/15/1998	20,140,000	22,728,465	23,167,243
United States Treasury	9.125%	05/15/1999	137,530,000	147,749,760	157,944,953
United States Treasury	7.875%	11/15/1999	188,735,000	186,282,201	203,184,551
United States Treasury	7.500%	11/15/2001	378,580,000	387,795,885	400,109,844
United States Treasury	10.750%	08/15/2005	60,000,000	73,656,527	78,768,600
United States Treasury	7.500%	11/15/2016	69,445,000	65,982,416	69,553,334
Total			**$14,136,450,400**	**$7,951,281,983**	**$8,469,277,077**

NOTE: Cents omitted. Columns will not add.

CANADIAN BONDS

Name	Coupon	Maturity	Par Value	Book Value	Market Value
Hydro Quebec	13.250%	10/15/2010	$ 7,000,000	$ 8,374,536	$ 8,855,910
Hydro Quebec	13.375%	02/15/2013	8,500,000	10,460,121	11,289,445
Hydro Quebec	13.250%	12/15/2013	9,770,000	11,838,580	13,201,614
Hydro Quebec	9.400%	02/01/2021	26,400,000	27,408,679	29,651,160
Hydro Quebec	8.875%	03/01/2026	112,900,000	104,189,309	120,437,204
Hydro Quebec	8.250%	04/15/2026	120,540,000	106,267,186	120,467,676
Hydro Quebec	8.250%	01/15/2027	114,650,000	101,571,213	114,601,847
Hydro Quebec	8.625%	06/15/2029	81,675,000	81,332,854	82,928,711
Hydro Quebec	8.500%	12/01/2029	167,280,000	161,697,669	172,020,715
Hydro Quebec	9.375%	04/15/2030	128,465,000	126,186,787	144,771,062
Hydro Quebec	9.500%	11/15/2030	41,200,000	42,100,909	47,038,040
Nova Scotia Power Corporation	9.400%	04/01/2021	29,800,000	29,815,630	33,008,268
Province of Manitoba	7.750%	07/17/2016	24,935,000	23,053,651	28,965,992
Province of Manitoba	9.625%	12/01/2018	19,285,000	19,389,652	22,239,462
Province of Manitoba	9.250%	04/01/2020	10,200,000	10,487,182	11,364,432
Province of Nova Scotia	8.875%	03/15/2016	12,650,000	11,943,680	13,287,307
Province of Nova Scotia	9.500%	02/01/2019	98,340,000	98,645,405	109,778,908
Province of Nova Scotia	8.875%	07/01/2019	82,660,000	82,699,430	86,812,838
Province of Nova Scotia	9.250%	03/01/2020	151,525,000	144,921,221	165,254,680
Province of Nova Scotia	9.125%	05/01/2021	90,725,000	89,797,327	97,797,921
Province of Ontario	17.000%	11/05/2011	7,000,000	9,884,535	10,343,900
Province of Ontario	15.750%	03/15/2012	13,330,000	17,955,499	19,223,726
Province of Ontario	15.250%	08/31/2012	20,700,000	27,637,502	29,803,446
Province of Quebec	13.000%	10/01/2013	3,000,000	3,647,747	3,992,820
Province of Quebec	13.250%	09/15/2014	24,815,000	30,310,190	33,979,427
Province of Quebec	8.625%	12/01/2026	171,700,000	155,922,952	178,945,740
Province of Saskatchewan	9.375%	12/15/2020	23,550,000	23,678,775	26,018,746
Total			**$1,602,595,000**	**$1,561,218,231**	**$1,736,081,002**

MORTGAGES

Name	Coupon	Maturity	Par Value	Book Value	Market Value
FNMA Remic Class Y-4	7.000%	03/25/2019	$ 5,635,000	$ 4,665,603	$ 5,437,775
FNMA Remic Class Y-8	7.500%	10/25/2019	27,735,000	24,144,628	27,526,987
FNMA — FHA Project — Pool 2494	8.000%	04/01/2008	90,526,554	85,312,924	93,198,898
FNMA — FHA Project — Pool 7238	8.000%	06/01/2008	21,348,515	19,281,417	21,978,723
FNMA — FHA Project — Pool 7239	8.000%	08/01/2008	7,854,339	7,389,215	8,086,199
FNMA — FHA Project — Pool 8213	8.000%	01/01/2008	12,993,712	11,685,258	13,377,287
FNMA — FHA Project — Pool 8300	7.500%	07/01/2007	56,394,707	50,334,530	57,072,571
FNMA — FHA Project — Pool 36204	8.000%	03/01/2008	13,137,037	11,979,336	13,212,838
FNMA — FHA Project — Pool 44045	8.000%	06/01/2008	302,804,652	276,363,419	313,635,975
FNMA — FHA Project — Pool 44046	7.500%	02/01/2014	127,732,493	113,828,886	130,225,831
FNMA — FHA Project — Pool 44049	8.000%	04/01/2008	20,567,341	19,527,383	21,303,035
FNMA — FHA Project — Pool 44064	8.000%	07/01/2008	93,805,020	85,669,127	96,574,144
FNMA — Stripped Mtg. Backed Sec. Class 2 — TR1	9.000%	02/01/2017	60,120,156	60,120,156	44,354,799
FNMA — Stripped Mtg. Backed Sec. Class 2 — TR6	9.000%	01/01/2017	114,460,644	114,460,644	87,359,759
FNMA — Stripped Mtg. Backed Sec. Class 2 — TR31	9.000%	01/01/2018	15,318,226	15,318,226	11,296,768
FNMA — Stripped Mtg. Backed Sec. Class 2 — TR52	9.000%	02/01/2019	22,325,673	22,325,673	16,103,981
FNMA — Stripped Mtg. Backed Sec. Class 2 — TR71	9.000%	02/01/2020	30,188,470	30,188,470	28,362,380
Federal Home Loan Mortgage Corporation	6.000%	02/15/2019	11,600,000	8,921,125	10,785,680
Federal Home Loan Mortgage Corporation	8.500%	08/01/2016	2,756,635	2,733,376	2,865,164
Federal Home Loan Mortgage Corporation	7.000%	03/01/2017	221,838	191,889	212,893
Federal Home Loan Mortgage Corporation	8.500%	05/01/2017	3,237,249	3,030,719	3,365,568
GNMA — GNMA II/Various — Pool 730	8.500%	03/20/2017	3,280,673	3,117,664	3,434,438
GNMA — Sovran Mortgage Corp. — Pool 150462	9.000%	06/15/2016	14,200,001	13,925,018	15,140,636
GNMA — Shearson Lehman Hutton Mortgage — Pool 152586	9.000%	06/15/2016	39,535,956	38,448,717	42,155,213
GNMA — Carteret Savings Bank — Pool 156621	9.000%	05/15/2016	14,826,181	13,352,829	15,808,416

NOTE: Cents omitted. Columns will not add

Name	Coupon	Maturity	Par Value	Book Value	Market Value
GNMA — Union Federal Savings & Loan — Pool 159858	9.000%	08/15/2016	$ 9,677,372	$ 9,713,662	$ 10,318,498
GNMA — Alliance Mortgage Co. — Pool 164678	9.000%	06/15/2016	19,099,348	17,201,350	20,364,680
GNMA — Alliance Mortgage Co. — Pool 164680	9.000%	08/15/2016	20,358,700	20,384,148	21,707,464
GNMA — City Federal Savings — Pool 167142	9.000%	07/15/2016	8,684,642	8,204,273	9,260,000
GNMA — GMAC Mortgage Corp. — Pool 167938	9.000%	10/15/2016	19,226,135	19,856,993	20,499,867
GNMA — Standard Federal Savings — Pool 171776	9.000%	11/15/2016	19,116,754	18,349,097	20,383,239
GNMA — Goldome-Rainier Mtg. Co. — Pool 175229	9.000%	08/15/2016	3,934,935	4,107,088	4,195,624
GNMA — Cowell Company — Pool 175983	9.000%	09/15/2016	10,881,159	10,724,742	11,602,035
GNMA — Margaretten & Co., Inc. — Pool 178648	9.000%	11/15/2021	9,795,201	10,180,887	10,444,133
GNMA — Margaretten & Co., Inc. — Pool 178649	9.000%	11/15/2021	4,898,787	5,059,528	5,223,331
GNMA — Firemans Fund Mortgage — Pool 182624	9.000%	12/15/2016	25,829,478	26,846,514	27,540,681
GNMA — Government National Mtg. — Pool 183560	8.500%	08/15/2021	11,808,709	11,500,576	12,421,227
GNMA — Mason McDuffie — Pool 183738	8.500%	01/15/2017	15,063,537	15,247,124	15,844,882
GNMA — Lincoln Service Corp. — Pool 185648	9.000%	03/15/2020	17,481,035	17,486,498	18,639,154
GNMA — Seafirst Mortgage Corp. — Pool 187852	9.000%	11/15/2016	3,910,510	3,749,202	4,169,582
GNMA — City Federal Savings Bk. — Pool 197502	9.000%	12/15/2016	8,141,123	8,120,771	8,680,473
GNMA — First Union Mortgage — Pool 200071	8.500%	04/15/2017	18,548,055	18,756,721	19,510,143
GNMA — Fleet Mortgage Corp. — Pool 201209	8.500%	04/15/2017	17,097,082	15,828,158	17,983,907
GNMA — Empire Funding — Pool 203016	8.000%	05/15/2017	37,309	33,741	38,521
GNMA — Lincoln Service Corp. — Pool 208742	9.000%	06/15/2017	11,824,989	12,342,333	12,608,395
GNMA — Southeast Mortgage Co. — Pool 218222	9.000%	08/15/2019	8,936,687	8,917,138	9,528,743
GNMA — National Mortgage Co. — Pool 228869	8.500%	04/15/2017	15,068,802	13,929,224	15,850,421
GNMA — Fleet Funding — Pool 236938	9.000%	05/15/2018	4,459,013	4,212,374	4,754,423
GNMA — Banc Boston Mortgage — Pool 253475	9.000%	11/15/2019	2,954,455	3,070,786	3,150,187
GNMA — American Residential Mortgage — Pool 255182	9.000%	03/15/2020	17,397,528	17,402,964	18,550,114
GNMA — Fleet Real Estate Funding — Pool 262930	9.000%	09/15/2019	8,026,651	8,009,092	8,558,416
GNMA — First Union Mortgage — Pool 267838	9.000%	11/15/2019	6,120,211	6,387,970	6,525,675
GNMA — First Union Mortgage — Pool 267898	9.500%	09/15/2019	9,083,248	9,010,156	9,795,647
GNMA — First Union Mortgage — Pool 267900	9.000%	09/15/2019	4,893,978	5,086,678	5,218,204
GNMA — First National Bank — Pool 271730	9.000%	01/15/2020	23,008,018	23,762,969	24,532,300
GNMA — ICN Mortgage Corp. — Pool 272067	9.000%	10/15/2021	2,939,251	3,067,844	3,133,977
GNMA — Americas Mortgage Co. — Pool 278750	9.000%	10/15/2019	11,790,197	11,834,410	12,571,297
GNMA — Fleet Mortgage Corp. — Pool 279471	9.000%	11/15/2019	23,612,025	22,704,437	25,176,321
GNMA — Fleet Mortgage Corp. — Pool 279480	9.000%	10/15/2019	9,493,940	9,858,863	10,122,913
GNMA — Barclays American Mtg. — Pool 279771	8.500%	12/15/2019	21,645,481	21,192,278	22,768,232
GNMA — Barclays American Mtg. — Pool 279772	9.000%	12/15/2019	48,195,130	50,017,508	51,388,057
GNMA — Chemical Mortgage Co. — Pool 281584	9.000%	11/15/2019	9,685,408	10,057,691	10,327,067
GNMA — Fleet Real Estate — Pool 281659	9.000%	09/15/2019	10,071,399	10,512,022	10,738,629
GNMA — Fleet Mortgage Corp. — Pool 281731	9.000%	10/15/2019	6,130,770	6,398,991	6,536,934
GNMA — Inland Mortgage Corp. — Pool 281940	9.000%	01/15/2020	6,118,402	6,319,162	6,523,746
GNMA — Republic National Bank — Pool 283843	9.000%	02/15/2020	5,563,915	5,777,778	5,932,524
GNMA — Firemans Fund Mortgage — Pool 283890	9.000%	05/15/2020	9,696,337	10,069,040	10,338,720
GNMA — Chemical Mortgage Co. — Pool 284040	9.000%	02/15/2020	9,498,824	9,872,841	10,128,122
GNMA — Chemical Mortgage Co. — Pool 284041	9.000%	02/15/2020	9,761,460	10,188,523	10,408,156
GNMA — Chemical Mortgage Co. — Pool 284066	9.000%	03/15/2020	9,517,040	9,882,851	10,147,544
GNMA — Banc Boston Mortgage — Pool 284627	9.000%	02/15/2020	19,453,955	18,733,551	20,742,780
GNMA — Banc Boston Mortgage — Pool 284681	9.000%	03/15/2020	9,444,248	9,807,262	10,069,930
GNMA — Barclays American — Pool 284896	9.000%	03/15/2020	125,655,802	120,904,442	133,980,499
GNMA — Independence One Mtg. — Pool 285810	9.000%	02/15/2020	9,644,480	10,015,189	10,283,426
GNMA — Fleet Mortgage Corp. — Pool 286287	9.000%	02/15/2020	19,216,761	18,520,153	20,489,871
GNMA — Fleet Mortgage Corp. — Pool 286409	9.000%	10/15/2020	16,945,272	16,331,006	18,274,290
GNMA — Americas Mortgage Co. — Pool 287218	9.000%	03/15/2020	19,794,247	20,443,746	21,105,616
GNMA — Fleet Real Estate Funding — Pool 288132	9.000%	04/15/2020	5,968,677	6,164,524	6,364,101
GNMA — Citicorp Mortgage Inc. — Pool 289079	9.000%	03/15/2020	23,318,174	22,429,168	24,863,003
GNMA — Banc Boston Mortgage — Pool 290000	9.000%	04/15/2020	9,006,330	9,360,955	9,603,000
GNMA — Banc Boston Mortgage — Pool 290269	9.500%	10/15/2020	12,751,325	12,648,717	13,751,412
GNMA — Barclays American — Pool 290385	9.500%	10/15/2020	29,969,429	29,604,177	32,319,932

NOTE: Items estimated. Columns will not add.

Name	Coupon	Maturity	Par Value	Book Value	Market Value
GNMA — Government National — Pool 291026	9.000%	11/15/2020	$ 1,928,229	$ 1,855,318	$ 2,055,974
GNMA — Washington Mutual Savings — Pool 291265	9.000%	03/15/2021	8,832,541	9,180,322	9,417,696
GNMA — Sovran Mortgage Corp. — Pool 291881	9.000%	02/15/2021	9,660,194	10,040,564	10,300,181
GNMA — Republic National Bank — Pool 292422	9.500%	09/15/2020	43,562,345	43,058,655	46,978,939
GNMA — Firemans Fund Mortgage — Pool 292597	9.500%	11/15/2020	8,357,842	8,290,587	9,013,347
GNMA — Firemans Fund Mortgage — Pool 292625	9.500%	11/15/2020	21,205,965	21,035,323	22,869,149
GNMA — Americas Mortgage — Pool 293399	9.500%	11/15/2020	38,923,612	38,610,398	41,976,391
GNMA — Americas Mortgage — Pool 293402	9.500%	11/15/2020	19,080,426	18,926,888	20,576,904
GNMA — First Union Mortgage — Pool 295052	9.500%	11/15/2020	27,099,066	26,881,003	29,224,446
GNMA — Chemical Mortgage Co. — Pool 295420	9.500%	09/15/2020	9,542,437	9,465,650	10,290,850
GNMA — Banc Boston Mortgage — Pool 296099	8.500%	07/15/2021	14,980,240	14,596,372	15,757,265
GNMA — United Mortgage Corp. — Pool 297329	9.000%	04/15/2021	4,936,614	5,098,597	5,263,665
GNMA — Lincoln Savings — Pool 298317	9.000%	05/15/2021	8,864,945	9,230,624	9,452,248
GNMA — Norwest Mortgage — Pool 298523	9.500%	11/15/2020	19,035,160	18,881,987	20,528,088
GNMA — Government National — Pool 298584	9.000%	11/15/2021	47,710,439	49,934,250	50,871,255
GNMA — Americas Mortgage Co. — Pool 298859	8.500%	04/15/2021	34,739,406	33,887,205	36,541,339
GNMA — Barclays American Mtg. — Pool 299204	8.500%	03/15/2021	30,071,145	29,441,531	31,630,936
GNMA — Government National — Pool 299217	8.500%	04/15/2021	86,521,979	84,818,577	91,009,874
GNMA — GMAC Mortgage Corp. — Pool 300263	9.000%	05/15/2021	9,903,054	9,881,391	10,559,132
GNMA — Sovran Mortgage Corp. — Pool 301298	9.000%	05/15/2021	3,005,206	3,136,684	3,204,301
GNMA — Fleet Mortgage Corp. — Pool 301500	9.000%	05/15/2021	9,760,337	9,738,987	10,406,960
GNMA — Independence One Mtg. Co. — Pool 302071	9.000%	06/15/2021	9,835,938	10,266,260	10,487,569
GNMA — Government National Mtg. — Pool 302916	9.000%	06/15/2021	8,295,894	8,275,154	8,845,497
GNMA — First Union Mortgage — Pool 303279	9.000%	04/15/2021	7,508,506	7,818,232	8,005,945
GNMA — Government National — Pool 303315	9.000%	04/15/2021	11,454,011	11,457,591	12,212,840
GNMA — First Wachovia Mortgage — Pool 303473	9.000%	05/15/2021	15,542,106	15,600,389	16,571,771
GNMA — First Wachovia Mortgage — Pool 303474	8.500%	05/15/2021	32,397,706	31,319,470	34,078,175
GNMA — Government National Mtg. — Pool 303482	8.500%	06/15/2021	30,744,298	29,721,090	32,339,005
GNMA — Inland Mortgage Corp. — Pool 304754	9.000%	05/15/2021	9,709,307	10,134,089	10,352,549
GNMA — Charles F. Curry Co. — Pool 304757	9.000%	05/15/2021	9,798,731	10,202,929	10,447,897
GNMA — South Carolina National Bank — Pool 305073	9.000%	03/15/2021	2,031,472	2,032,107	2,166,057
GNMA — South Carolina — Pool 305076	9.000%	05/15/2021	4,977,413	5,182,731	5,307,166
GNMA — Entry Mortgage — Pool 305507	9.000%	05/15/2021	4,931,031	5,134,437	5,257,712
GNMA — First Federal Savings — Pool 305600	9.000%	05/15/2021	9,874,414	10,281,733	10,528,594
GNMA — Government National — Pool 306039	8.500%	05/15/2021	152,643,068	149,447,104	160,560,664
GNMA — Government National Mtg. — Pool 306051	8.500%	06/15/2021	270,860,446	261,380,330	284,909,977
GNMA — Barclays American — Pool 306066	8.500%	07/15/2021	215,899,949	210,536,185	227,098,680
GNMA — Government National Mtg. — Pool 306080	8.500%	08/15/2021	223,479,434	217,892,448	235,071,312
GNMA — Barclays American Mtg. — Pool 306081	9.000%	08/15/2021	198,599,399	206,108,938	211,756,609
GNMA — Principal Mutual Life — Pool 306512	8.500%	07/15/2021	37,831,189	36,873,587	39,793,493
GNMA — Government National Mtg. — Pool 306548	9.000%	11/15/2021	12,265,036	12,747,972	13,077,595
GNMA — Sears Mortgage — Pool 306616	9.000%	05/15/2021	4,851,469	5,051,592	5,172,879
GNMA — Fleet National — Pool 307505	9.000%	05/15/2021	9,603,484	9,999,628	10,239,715
GNMA — Government National Mtg. — Pool 307549	9.000%	06/15/2021	27,939,162	28,043,934	29,790,132
GNMA — Fleet Mortgage Bank — Pool 307591	8.500%	08/15/2021	13,198,676	12,860,459	13,883,291
GNMA — Fleet National — Pool 307629	9.000%	05/15/2021	4,926,420	5,129,635	5,252,795
GNMA — Sears Mortgage Corp. — Pool 307944	9.000%	07/15/2021	10,168,475	10,568,858	10,842,136
GNMA — Dime Savings Bank — Pool 308026	9.000%	05/15/2021	9,766,568	10,193,856	10,413,603
GNMA — Dime Savings Bank — Pool 308045	9.000%	07/15/2021	4,888,990	5,081,494	5,212,886
GNMA — Dime Savings Bank — Pool 308052	9.000%	10/15/2021	4,897,761	5,058,469	5,222,238
GNMA — Firemans Fund Mortgage — Pool 308073	9.000%	09/15/2021	4,082,863	4,261,488	4,353,353
GNMA — Government National Mtg. — Pool 308078	8.500%	08/15/2021	48,611,717	47,381,233	51,133,207
GNMA — Firemans Fund Mortgage — Pool 308083	9.000%	09/15/2021	28,870,595	30,133,684	30,783,272
GNMA — Government National Mtg. — Pool 308103	9.000%	11/15/2021	19,986,717	20,759,641	21,310,837
GNMA — Union Federal Savings — Pool 308196	9.000%	05/15/2021	11,652,643	12,133,314	12,424,631
GNMA — Union Federal Savings — Pool 308219	8.500%	07/15/2021	13,944,149	13,586,830	14,667,432
GNMA — Union Federal Savings — Pool 309708	8.500%	08/15/2021	11,963,724	11,625,375	12,584,283

NOTE: Cents omitted. Columns will not add

Name	Coupon	Maturity	Par Value	Book Value	Market Value
GNMA — Chemical Mortgage Co. — Pool 310543	9.000%	07/15/2021	$ 9,998,518	$ 10,392,209	$ 10,660,919
GNMA — Chemical Mortgage Co. — Pool 310546	9.000%	07/15/2021	8,031,018	8,347,239	8,563,073
GNMA — Chemical Mortgage Co. — Pool 310625	9.000%	10/15/2021	20,027,446	20,803,510	21,354,264
GNMA — Chemical Mortgage Co. — Pool 310631	9.000%	10/15/2021	3,956,244	4,086,059	4,218,346
GNMA — Government National Mtg. — Pool 310887	8.500%	06/15/2021	50,643,000	48,838,843	53,269,853
GNMA — Merrill Lynch Equity — Pool 310895	8.500%	07/15/2021	14,885,107	14,503,676	15,657,197
GNMA — Merrill Lynch Equity — Pool 310896	9.000%	07/15/2021	10,048,645	10,444,310	10,714,368
GNMA — First Union Mortgage — Pool 311159	8.500%	08/15/2021	18,565,458	18,092,619	19,528,448
GNMA — Government National Mtg. — Pool 311322	9.000%	10/15/2021	8,814,384	9,161,451	9,398,337
GNMA — Government National Mtg. — Pool 312038	8.500%	07/15/2021	21,353,950	20,796,745	22,461,580
GNMA — Fleet National — Pool 312173	9.000%	11/15/2021	9,998,941	10,489,515	10,661,371
GNMA — Fleet National — Pool 312222	9.000%	11/15/2021	11,349,075	11,905,889	12,100,952
GNMA — Fleet National Bank — Pool 312257	9.000%	10/15/2021	26,471,961	27,654,927	28,225,729
GNMA — Fleet National Bank — Pool 312258	9.000%	09/15/2021	6,162,850	6,365,068	6,571,138
GNMA — Inland Mortgage Corp. — Pool 312484	8.500%	12/15/2021	9,796,335	9,931,034	10,304,470
GNMA — Prudential Home Mtg. — Pool 312949	8.500%	07/15/2021	39,711,891	38,588,789	41,771,747
GNMA — Government National Mtg. — Pool 312953	8.500%	08/15/2021	38,897,301	37,882,324	40,914,904
GNMA — Prudential Home Mtg. — Pool 312965	9.000%	09/15/2021	9,982,013	10,375,055	10,643,321
GNMA — Prudential Home Mtg. — Pool 312967	9.000%	10/15/2021	40,099,639	41,891,592	42,756,241
GNMA — Prudential Home Mtg. — Pool 312977	9.000%	11/15/2021	49,842,709	51,890,933	53,144,789
GNMA — G.E. Capital Mortgage — Pool 313012	9.000%	07/15/2021	34,047,051	35,525,970	36,302,668
GNMA — G.E. Capital Mortgage — Pool 314577	9.000%	10/15/2021	18,721,191	19,639,700	19,961,470
GNMA — G.E. Capital Mortgage — Pool 314579	9.000%	10/15/2021	9,793,972	10,179,610	10,442,823
GNMA — G.E. Capital Mortgage — Pool 314580	9.000%	10/15/2021	3,793,117	3,940,100	4,044,411
GNMA — Government National — Pool 315074	9.000%	11/15/2021	66,696,298	69,564,667	71,114,928
GNMA — Fleet National Bank — Pool 316272	8.500%	12/15/2021	15,080,000	15,287,350	15,862,199
GNMA — Government National Mtg. — Pool 316274	9.000%	12/15/2021	6,367,927	6,630,603	6,789,802
GNMA — Government National Mtg. — Pool 319256	9.000%	11/15/2021	20,061,248	21,051,772	21,390,305
GNMA — Government National Mtg. — Pool 319266	9.000%	11/15/2021	10,059,036	10,555,700	10,725,447
GNMA — Government National Mtg. — Pool 319272	9.000%	11/15/2021	10,063,945	10,560,852	10,730,681
GNMA — Government National Mtg. — Pool 319275	9.000%	11/15/2021	20,028,421	21,017,324	21,355,303
Northeast Mortgage FHA Project — Pool 1985-1	8.545%	08/01/2016	23,265	18,581	23,265
Sears Mortgage Securities Corp. — Series 1985-A	11.875%	04/25/2015	42,029	41,504	42,029
Total			**$4,542,025,813**	**$4,459,244,905**	**$4,720,657,219**

COMMON STOCK

Name	Shares	Cost	Market Value
Advanced Micro Devices	443,600	$ 6,647,956	$ 7,763,000
Allegheny Power System Inc.	1,500,000	56,780,505	66,750,000
Aluminum Co. of America	1,300,000	83,013,111	83,687,500
AMAX Inc.	1,300,000	26,837,435	26,000,000
American Cyanamid Co.	1,000,000	45,520,471	64,750,000
American Electric Power	2,661,500	79,768,326	91,156,375
American International Group	2,333,000	144,226,068	229,508,875
American Telephone & Telegraph	2,151,000	80,957,773	84,157,875
Ameritech	1,947,000	121,071,743	123,634,500
Amoco Corporation	2,000,000	104,228,075	98,250,000
AMP Inc.	959,400	49,354,207	56,244,825
Apple Computer, Inc.	90,000	4,568,105	5,073,750
Archer Daniels Midland Company	4,209,100	91,800,705	139,426,437
ARKLA Inc.	2,167,000	42,799,639	27,087,500
Atlantic Energy Inc.	553,300	18,869,457	22,685,300
Atlantic Richfield Company	130,200	2,970,582	13,898,850
Baker Hughes, Inc.	2,000,000	54,000,824	38,500,000
Baxter International Inc.	3,125,000	73,502,656	125,000,000
Bell Atlantic Corp.	1,496,500	70,154,686	72,206,125
Bellsouth Corporation	1,327,000	64,856,314	68,672,250

NOTE: Cents omitted. Columns will not add.

Name	Shares	Cost	Market Value
Bristol-Myers Squibb Company	957,000	$ 43,014,753	$ 84,455,250
Bruno's, Inc.	1,236,000	14,161,267	16,995,000
Burlington Northern Inc.	373,000	12,357,579	15,106,500
Calmat Company	536,900	12,283,085	12,415,812
Caterpillar, Inc.	638,400	29,899,214	28,009,800
Central & South West Corp.	539,000	26,739,672	29,106,000
Chevron Corporation	3,276,700	177,617,268	226,092,300
Cincinnati Gas & Electric Co.	787,000	28,239,019	31,578,375
Commonwealth Edison Company	5,000,000	198,065,233	199,375,000
Cooper Industries	1,559,700	45,140,492	89,292,825
Deere & Company	1,198,000	57,523,007	57,504,000
Delmarva Power & Light Company	1,500,000	26,814,254	31,875,000
Detroit Edison Company	897,600	28,644,394	31,191,600
Digital Equipment Corporation	435,600	26,696,386	24,066,900
Dominion Resources Inc.	2,197,100	101,216,472	125,234,700
Dow Chemical Company	2,406,450	116,663,905	129,346,687
DQE Inc.	1,505,400	43,636,597	46,102,875
Duke Power Company	964,000	29,985,647	33,740,000
Eastman Kodak Co.	3,345,000	131,218,858	161,396,250
Emerson Electric Co.	1,202,000	57,147,485	66,110,000
Entergy Corporation	1,609,600	43,399,303	47,684,400
Fisher-Price, Inc.	400,000	9,350,000	13,500,000
Florida Progress Corporation	1,405,000	50,661,953	66,035,000
Foster Wheeler Corporation	1,300,000	31,511,665	34,450,000
FPL Group Incorporated	1,500,000	45,588,518	55,500,000
Freeport-McMoRan, Inc.	1,000,000	35,471,867	39,375,000
General Public Utilities Corp.	1,666,500	42,460,561	45,412,125
General Re Corp.	55,000	5,111,480	5,603,125
Gillette Co.	732,000	21,469,301	41,083,500
Goodrich, B.F.	274,000	12,269,674	11,508,000
Goulds Pumps Incorporated	750,000	13,051,396	17,437,500
GTE Corporation	3,922,000	118,260,716	135,799,250
Halliburton Company	1,500,000	68,368,711	42,750,000
Homestake Mining Company	617,500	9,665,957	9,880,000
Ingersoll-Rand Company	1,240,100	49,734,290	68,205,500
International Paper Company	1,500,000	60,863,404	106,125,000
Ipalco Enterprises Inc.	593,000	13,409,760	19,791,375
Kansas City Power & Light Co.	324,000	13,979,606	15,349,500
Kansas Power & Light Company	963,000	21,923,833	27,325,125
Marsh & McLennan Companies	18,100	1,380,867	1,472,887
Minnesota Mining & Manufacturing	1,703,600	137,438,181	162,267,900
Mobil Corporation	3,750,000	173,874,116	254,531,250
Montana Power Company	542,000	13,028,207	15,311,500
Morton International Inc.	1,000,000	49,090,808	58,125,000
Motorola, Inc.	1,500,000	81,243,635	97,875,000
Nalco Chemical Company	683,100	18,219,794	28,434,037
Newmont Mining Corporation	396,600	15,672,908	16,012,725
Niagara Mohawk Power Corp.	1,461,500	24,727,776	26,124,312
NIPSCO Industries	1,404,500	35,010,888	36,165,875
Nordstrom, Inc.	2,000,000	51,435,403	72,000,000
Northern States Power Company	336,700	12,978,139	14,478,100
Nynex Corporation	1,149,500	87,509,687	92,822,125
Pacific Gas & Electric Company	2,547,000	75,614,302	82,777,500
Pacific Telesis Group	1,552,100	64,912,326	69,262,462
Pacificorp	5,055,000	96,151,844	127,006,875
Pepsico, Inc.	1,976,000	59,491,348	66,937,000
Philadelphia Electric Company	1,296,100	29,430,425	33,536,587

NOTE: Cents omitted. Columns will not add.

Name	Shares	Cost	Market Value
Potlatch Corporation	114,000	$ 4,328,396	$ 4,360,500
PSI Resources, Inc.	1,209,400	21,256,691	21,164,500
Public Service Enterprise Group	4,992,000	130,052,144	146,640,000
Quaker Oats Company	1,947,500	84,924,263	145,819,062
Reynolds Metals Company	1,000,000	57,860,384	55,000,000
Scana Corporation	992,000	30,261,563	43,896,000
SCE Corporation	4,255,000	162,386,686	198,921,250
Schering-Plough Corporation	1,366,000	45,635,242	89,814,500
Southwestern Bell Corporation	1,200,600	68,365,763	77,588,775
Torchmark Corporation	1,480,000	10,759,474	85,655,000
US West, Inc.	3,139,000	114,071,249	118,889,625
U.S. Healthcare, Inc.	325,000	12,869,390	13,487,500
United Dominion Realty Trust	333,600	4,652,270	6,880,500
Walgreen Company	816,400	6,249,170	31,023,200
Warner-Lambert Company	722,500	24,864,309	56,084,062
Wisconsin Energy Corporation	815,900	29,642,993	32,024,075
Total		**$4,930,935,903**	**$6,068,652,125**

REAL ESTATE

Name	Book Value	Market Value
AFL/CIO Housing Investment Trust	$ 16,436,156	$ 17,935,315
Bristol Group	86,629,770	61,047,915
Lowe Enterprises	45,147,817	45,481,614
NCNB	103,994,072	86,592,636
Rothschild Property	27,550,000	22,038,107
Rothschild Realty	123,587,217	118,043,182
TMMAC	27,138,248	27,108,417
Trinet Trust	317,183,890	266,071,867
Trisis Trust	17,335,000	17,666,899
Wells Fargo	270,477,032	280,622,525
Total	**$1,035,479,205**	**$942,608,481**

VENTURE CAPITAL

Name	Cost	Market Value
Cardinal Development Capital Fund I	$ 1,745,513	$ 1,745,513
Micro Industries Corporation	3,000,000	4,000,000
Primus Capital Fund	2,706,472	2,706,472
Primus Capital Fund II	9,934,825	9,934,825
Total	**$17,386,810**	**$18,386,810**

NOTE: Cents omitted. Columns will not add.

PLAN STATEMENT

PERS

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. This summary outlines the Ohio law which regulates PERS; however, it cannot and does not change any of the provisions of the Ohio Revised Code.

Member Eligibility

Beginning June 30, 1991, 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 unless they may be exempted or excluded.

The law provides for optional membership for elected public officials. Students, not already members, working for the public school, college, or university they are attending may be exempt from membership in PERS provided the employment does not exceed 1,500 hours in any calendar year. They must file a request for exemption within the first month of employment.

Prior to June 30, 1991, individuals may have been eligible for exemption from membership if they were new employees, not already members, whose employment did not exceed either 20 hours per week or three calendar months, or if they were students whose employment did not exceed 1,500 in any calendar year.

The following individuals are excluded from membership:

1. inmates of state correctional and penal institutions;
2. patients in hospitals operated by the Departments of Mental Health or Mental Retardation;
3. patients in the Ohio Veterans' Home and residents of county homes;
4. elected officials of public employers which are not covered by PERS;
5. employees of temporary help services who perform services for public employers;
6. individuals serving on a temporary basis in case of fire, storm, snow, earthquake, flood, or other similar emergency;
7. persons employed under the federal Job Training Partnership Act;
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 contract as an independent contractor; and
10. election day workers who earn less than $500 per calendar year and were employed on or after July 1, 1991.

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.

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 state employer contribution rate for the period January 1 through June 30, 1991 was 13.71 percent and 13.31 percent for July 1 through Dec. 31, 1991. Local employers contributed 13.95 percent from January 1 through June 30, 1991 and 13.55 percent from July 1 through Dec. 31, 1991. Employers in the law enforcement division contribute 16 percent of member payroll.

The current contribution rate for members is 8.5 percent of earnable salary. Members in the law enforcement division pay 9.0 percent of earnable salary. 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 accounts 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 FOR CONTRIBUTING MEMBERS

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 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 and covered by the Police and Firemen's Disability and Pension Fund or the State Highway Patrol and 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. The choices include benefits payable throughout the member's lifetime (Plan B-single life annuity) or in a lesser amount during the individual's life but continuing after his/her death to a spouse or other designated beneficiary (Plans A, C, or D-joint and survivor annuities). A benefit payable under Plan A, C, or D is the actuarial equivalent of Plan B, but the payment to the member is reduced because it is based on the combined life expectancies of the member and the beneficiary. A fifth payment plan (Plan E-guaranteed period) is also the actuarial equivalent of Plan B, but the payment is reduced to guarantee the period.

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 or the limits under Internal Revenue Code Section 415.

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 or the limits under Internal Revenue Code Section 415.

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 or the limits under Internal Revenue Code Section 415.

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. 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. If no spouse or child(ren), a dependent parent may select a monthly survivor benefit.
5. If none of the above, parents share equally in a refund of the account.
6. If none of the foregoing, a refund of the account will be paid to the member's estate.

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 age 18 or 22 if qualified student(s).
3. Dependent child(ren) under age 18 or 22 if qualified student(s).
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. If the member dies after reaching retirement age but before applying for benefits, the surviving spouse, or other sole dependent beneficiary, regardless of age, may elect to take a monthly joint survivorship allowance for life, known as Plan D.

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

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

Additional Benefits

1. *Health Care Coverage* — When applying for age and service 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 service (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.

COVERAGE AND BENEFITS FOR RE-EMPLOYED RETIRANTS

After a member retires, re-employment in a job covered by PERS, including service in an elected position, may affect continuing receipt of an age and service retirement benefit.

Prior to June 30, 1991 these retirants were subject to various restrictions on re-employment which could have resulted in suspension of their benefits. With the enactment of House Bill 382, effective June 30, 1991, these retirants begin contributing from the first day of re-employment at a rate of 8.5 percent or earnable salary. State employers contribute 13.31 percent for these re-employed retirants and local employers contribute 13.55 percent.

A retirant should not be re-employed for at least two months after retirement from PERS. A retirant who returns to work and has not been retired for the required two months must contribute, but the current retirement allowance for each month in which re-employment occurs during those two months will be forfeited.

All re-employed PERS retirants must elect to either:

1) receive compensation, receive their retirement allowance, and make contributions toward a money purchase annuity, which is based on the

calculation of the sum of the employee contributions received for the period of re-employment plus allowable interest, multiplied by two; or

2) receive compensation, have their retirement allowance suspended for the period of re-employment, and make contributions toward a formula benefit.

A PERS retirant cannot continue to receive benefits and work as an independent contractor under a contract for any period of time from the employer from which they retired.

A disability or age and service retirant from another Ohio System coming into PERS-covered employment should be retired for at least two months and must begin contributions to PERS from the first day of employment. These retirants will earn only a money purchase annuity based on the calculation of sum of the employee contributions received for the period of re-employment plus allowable interest, multiplied by two.

Prior to June 30, 1991, retirants receiving a benefit from another Ohio retirement system were excluded from membership in PERS if they became re-employed in a PERS-covered position.

PERS

PUBLIC EMPLOYEES RETIREMENT SYSTEM OF OHIO
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